

Volex plc (the "Company")

Audit Committee

Terms of Reference

**1. Overview**

The Audit Committee has been established by resolution of the Board of Directors of the Company (the "Board").

**2. Membership**

2.1 Members of the Audit Committee shall be appointed by the Board on the recommendation of the Nominations Committee, in consultation with the Chairman of the Audit Committee.

2.2 The Audit Committee shall consist of at least two (2) members.

2.3 All members of the Audit Committee shall be independent Non-Executive Directors and at least one member of the Audit Committee should have recent and relevant financial experience, ideally with a qualification from one of the accountancy bodies.

2.4 The Board shall appoint a chairman of the Audit Committee, who shall be an independent Non-Executive Director, and shall decide his or her period of office. In the absence of the Audit Committee Chairman and/or an appointed deputy, the remaining members present shall elect themselves to chair the meeting.

2.5 Appointments to the Audit Committee shall be for a period of up to three years, which may be extended for two further three year periods, provided the Director remains independent and still meets the criteria for membership of the Audit Committee.

**3. Quorum**

The quorum for decisions of the Audit Committee shall be any two members. A duly convened meeting of the Audit Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Audit Committee.

**4. Attendance at Meetings**

4.1 Only members of the Audit Committee have the right to attend Audit Committee meetings.

4.2 The Audit Committee may invite other individuals, such as the Chairman of the Board, the Group Chief Executive, the Group Finance Director, other Directors, the Group Head of Internal Audit, the Group Financial Controller and representatives from the finance function, to attend and speak at meetings of the Audit Committee as and when appropriate.

4.3 Senior representatives of the external auditor shall be invited to attend meetings of the Audit Committee on a regular basis.

## **5. Secretary**

The Company Secretary or his or her deputy shall act as the secretary of the Audit Committee and shall keep a record of the membership of and the dates of any changes to the membership of the Audit Committee.

## **6. Frequency of Meetings**

6.1 The Audit Committee shall meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required.

6.2 Outside of the formal meeting programme, the Chairman of the Audit Committee shall maintain a dialogue with key individuals involved in the Company's governance, including the Chairman of the Board, the Group Chief Executive, the Group Finance Director, the external audit lead partner and the Group Head of Internal Audit.

6.3 Meetings of the Audit Committee shall be called by the secretary of the Audit Committee at the request of any member of the Audit Committee or at the request of the external auditor or the Group Head of Internal Audit if they consider it necessary.

6.4 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Audit Committee, any other person required to attend and all other Non-Executive Directors, where possible no later than five working days before the date of the meeting. Supporting papers shall be sent to the Audit Committee members and to other attendees as appropriate, at the same time.

## **7. Minutes of Meetings**

7.1 The Company Secretary or his or her deputy shall minute the proceedings and discussions of all meetings of the Audit Committee, including recording the names of those present and in attendance.

7.2 Draft minutes of the Audit Committee meetings shall be circulated promptly to all members of the Audit Committee. Once approved, minutes should be circulated to all other members of the Board unless in the opinion of the Chairman of the Audit Committee it would be inappropriate to do so.

## **8. Annual General Meeting**

The Chairman of the Audit Committee (or in his or her absence at least one Audit Committee member) shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Audit Committee's activities.

## **9. Authority**

9.1 The Audit Committee is authorised to:

- (a) seek any information it requires from any employee of the Company in order to perform its duties;
- (b) obtain, at the expense of the Company, external professional advice and to secure the attendance of third parties with relevant experience at meetings of the Audit Committee if it considers this necessary;
- (c) call any employee to be questioned at a meeting of the Audit Committee as and when required; and
- (d) have the right to have published in the Company's annual report details of any issues that cannot be resolved between the Audit Committee and the Board.

## **10. Duties**

The Audit Committee should carry out the duties below for the Company, its major subsidiary undertakings and the Group as a whole, as appropriate.

### **Financial Reporting**

- 10.1 The Audit Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, interim management statements, preliminary results' announcements and any other announcements or presentations relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the external auditor.
- 10.2 The Audit Committee shall review and challenge where necessary:
  - (a) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company and its Group;
  - (b) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (c) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - (d) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
  - (e) all material information presented with the financial statements, such as the strategic report and the corporate governance statement (insofar as it relates to the audit and risk management);
  - (f) the annual financial statements of the pension funds where not reviewed by the Board as a whole;
  - (g) major judgemental areas;

- (h) significant adjustments resulting from the audit;
- (i) the going concern assumption;
- (j) compliance with applicable regulatory and legal requirements; and
- (k) compliance with best practice in areas of corporate governance.

10.3 Where the Audit Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

#### **Narrative Reporting**

10.4 Where requested by the Board, the Audit Committee should review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

#### **Internal Controls and Risk Management Systems**

10.5 The Audit Committee shall:

- (a) keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems; and
- (b) review and approve the statements to be included in the annual report concerning internal controls and risk management.

#### **Compliance, whistleblowing and fraud**

10.6 The Audit Committee shall:

- (a) review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Audit Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action;
- (b) review the Company's procedures for detecting, monitoring and managing fraud; and
- (c) review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

#### **Internal Audit**

10.7 The Audit Committee shall:

- (a) monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- (b) approve the appointment and removal of the Group Head of Internal Audit;

- (c) consider and approve the remit of the internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Audit Committee shall also ensure the function has adequate standing and is free from management or other restrictions in the conduct of its role;
- (d) review and assess the annual internal audit plan;
- (e) review promptly periodic reports on the Company from the internal audit function;
- (f) review and monitor management's responsiveness to the findings and recommendations of the internal audit function; and
- (g) meet the Group Head of Internal Audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the Group Head of Internal Audit shall be given the right of direct access to the Chairman of the Board and to the Audit Committee.

### **External Audit**

10.8 The Audit Committee shall:

- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting of the Company, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Audit Committee shall oversee the selection process for a new auditor and if an auditor resigns, the Audit Committee shall investigate the issues leading to this and decide whether any action is required;
- (b) oversee the relationship with the external auditor including (but not limited to):
  - (i) approval of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
  - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (iii) assessing annually their independence and objectivity taking into account relevant UK law, professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
  - (iv) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Company (other than in the ordinary course of business);

- (v) agreeing with the Board a policy on the employment of former employees of the Company's external auditor, then monitoring the implementation of this policy
  - (vi) monitoring the external auditor's compliance with the relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
  - (vii) assessing annually the qualifications, expertise and resources of the external auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
  - (viii) seeking to ensure co-ordination with the activities of the internal audit function; and
  - (ix) evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their external auditor from the market in that evaluation;
- (c) meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. At least once every year, the Audit Committee shall meet the external auditor without management being present, to discuss the external auditors' remit and any issues arising from the audit;
- (d) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- (e) review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- (i) a discussion of any major issues which arose during the audit;
  - (ii) any accounting and audit judgements;
  - (iii) levels of errors identified during the audit;
  - (iv) and the effectiveness of the audit process;
- (f) review any representation letter(s) requested by the external auditor before they are signed by management;
- (g) review the management letter and management's response to the external auditor's findings and recommendations; and
- (h) develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

## **11. Reporting Responsibilities**

- 11.1 All proceedings of the Audit Committee shall be reported formally to the Board by the Chairman of the Audit Committee. The Chairman of the Audit Committee shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:
- (a) the significant issues that it considered in relation to the financial statements (required under paragraph 10.1) and how these were addressed;
  - (b) its assessment of the effectiveness of the external audit process (required under paragraph 10.8(b)(vii)) and its recommendation on the appointment or reappointment of the external auditor; and
  - (c) any other issues on which the Board has requested the Audit Committee's opinion.
- 11.2 The Audit Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 11.3 The Audit Committee shall compile a report on its activities to be included in the Company's annual report. The report should include an explanation of how the Audit Committee has addressed the effectiveness of the external audit process; the significant issues that the Audit Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the external auditor; and all other information requirements set out in the UK Corporate Governance Code.
- 11.4 In compiling the reports referred to in 11.1 and 11.3, the Audit Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

## **12. Other Matters**

- 12.1 The Audit Committee shall:
- (a) have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;
  - (b) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
  - (c) give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the Financial Conduct Authority's Listing, Prospectus and Disclosure and Transparency Rules as appropriate;
  - (d) be responsible for co-ordination of the internal audit function and the external auditor;

- (e) oversee any investigation of activities which are within its terms of reference;
- (f) work and liaise as necessary with all other Board committees; and
- (g) arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

### **13. Definitions**

In these terms of reference,

"Group" means the Company and its subsidiaries from time to time.

"UK Corporate Governance Code" means the UK Corporate Governance Code issued by the Financial Reporting Council in September 2012.