

## **Appendix B – Board Committees**

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### **Audit Committee – Terms of Reference**

(Approved by the Board on 10 September 2003)

(Amended on 31 January 2007 & 20 February 2008)

References to “the Committee” shall mean the Audit Committee.

References to “the Board” shall mean the Board of Directors of BAE SYSTEMS plc.

#### **1. Membership**

- 1.1. The Committee shall be appointed by the Board on the recommendation of the Nominations Committee, and shall comprise a Chairman and at least two other members.
- 1.2. All members of the Committee shall be independent non-executive directors. At least one member of the Committee shall have recent and relevant financial experience.
- 1.3. The Committee may ask any executive Director of the Company and any senior manager of the Company to attend meetings of the Committee either regularly or by invitation. Such invitees shall have no right of attendance.
- 1.4. Non-executive directors who are not members of the Committee may attend Committee meetings unless agreed otherwise by the Committee.
- 1.5. The Committee shall ask a representative of the Company’s Auditors and the head of the Company’s internal audit function to attend Committee meetings. Each year the Committee shall have one meeting or part of a meeting with the Auditors without any executive Directors or members of management present.

#### **2. Secretary**

- 2.1. The Company Secretary shall act as Secretary to the Committee.

#### **3. Quorum**

- 3.1. The quorum necessary for the transaction of business shall be two. A duly convened meeting of the 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 Committee.

#### **4. Frequency of Meetings**

- 4.1. The Committee shall usually meet four times each year but shall not meet on fewer than three times each year.
- 4.2. The Chairman shall call a meeting of the Committee at the request of the Auditors or the head of the Company's internal audit function.

#### **5. Annual General Meeting**

- 5.1. The Chairman of the Committee shall attend the Annual General Meeting and be available to respond to any shareholder questions on the Committee's responsibilities and activities.

#### **6. Duties**

##### **6.1. Internal Control and Risk Assessment**

- 6.1.1. The Committee shall keep under review the effectiveness of the Company's financial reporting and internal control policies and procedures for the identification, assessment and reporting of risk.

##### **6.2. Internal Audit**

- 6.2.1. The Committee shall monitor the role and effectiveness of the Company's internal audit function and management response to its findings and recommendations.
- 6.2.2. The Committee shall consider and approve the Internal Audit Charter, the resourcing of the Internal Audit function and whether it has access to information to enable it to fulfil its mandate. It shall also be advised of the planned programme of audits and progress against that programme.
- 6.2.3. Members of the Committee shall receive a summary of all reports produced by the internal audit function and have access to all such reports in full.
- 6.2.4. Approve the appointment or removal of the head of the Company's internal audit function
- 6.2.5. The head of the Company's internal audit function shall have direct access to the Chairman of the Committee.

### **6.3. Auditors**

- 6.3.1. The Committee shall consider and make recommendations to the Board as regards to the appointment and re-appointment of the Company's Auditors, and shall ensure that the senior partner responsible for Auditors' team is changed from time to time.
- 6.3.2. The Committee shall keep under review the relationship with the Auditors including (but not limited to):
- approving the terms of their engagement;
  - agreeing the scope of their annual audit;
  - the independence and objectivity of the Auditors;
  - their qualifications, expertise and resources;
  - approving fees payable to the Auditors in respect of audit work they undertake, and
  - the extent and nature of any non-audit work that the Auditors may undertake for the Company.
- 6.3.3. The Committee shall review with the Auditors their proposed audit programme and the results of their audit of the Company's financial statements.
- 6.3.4. The Committee shall review the audit representation letters before signature by management.
- 6.3.5. The Committee shall review the management letter (or equivalent) and review and monitor management's responsiveness to the Auditor's findings and recommendations.
- 6.3.6. Committee shall review the processes that aim to ensure that the Auditors are aware of all information that is relevant to their audit. The output from such processes shall be reviewed by the Committee at the conclusion of each audit.
- 6.3.7. At the end of the annual audit cycle, the Committee shall assess the effectiveness of the audit process:
- reviewing whether the Auditors have met the agreed audit plan;
  - considering the robustness and perceptiveness of the Auditor; and
  - obtaining feedback from key individuals about the conduct of the audit.

### **6.4. Financial Statements**

- 6.4.1. The Committee shall monitor the integrity of the Company's financial statements.
- 6.4.2. The Committee shall review significant financial reporting issues and judgements made in relation to the preparation of the Company's annual and half-yearly reports, interim management statements and any other announcements relating to its financial performance. Such matters shall

include (but not be limited to) accounting standards, accounting policies, the going concern assumption, the clarity of disclosures, adjustments resulting from the audit and conformity with legal and regulatory requirements.

- 6.4.3. The Committee shall review the proposed statement on internal control systems prior to endorsement by the Board. It shall also review the policies and processes for identifying and assessing business risk and the management of those risks.

## **6.5. Reporting Responsibilities**

- 6.5.1. The Committee Chairman shall report to the Board on the proceedings of the Committee on a regular basis.
- 6.5.2. The Company's annual report and accounts shall include a separate section describing to shareholders the role of the Committee and its responsibilities and how it has discharged these responsibilities during the year.
- 6.5.3. The Company Secretary shall circulate the minutes of the Committee's meetings to all Directors.

## **6.6. Other Matters**

- 6.6.1. In order to ensure that employees are able, in confidence, to raise concerns about possible improprieties in matters of financial reporting, the Committee shall receive a report each year from the Corporate Responsibility Committee on its review of the effectiveness of the Company's Ethics Helpline.
- 6.6.2. The Committee shall review on a regular basis its own performance and terms of reference to ensure that it is operating effectively.
- 6.6.3. Review the Company's processes for detecting fraud.

## **7. Authority**

- 7.1. The Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties.
- 7.2. The Committee may, at the Company's expense, obtain independent professional advice on any matters covered by these terms of reference.