

# **Audit Committee terms of reference**

## **Constitution**

- 1 The Board has established a committee of the Board to be known as the Audit Committee.

It is recognised that the Audit Committee will have a wide ranging, time consuming and sometimes intensive work to do, so that Members need to commit a significant extra amount of time to the job.

## **Membership**

- 2 The Committee shall be appointed by the Board from amongst the independent non executive directors of BW, other than the BW chairman. The Committee shall consist of five members. A quorum shall be two members. At least one member of the Committee should have significant, recent and relevant financial experience.
- 3 The Chairman of the Audit Committee will ensure there will be an induction programme for new Audit Committee members, and training on an ongoing and timely basis to all Committee Members.
- 4 The chairman of the Committee shall be appointed by the Board.

## **Attendance at meetings**

- 5 The Chief Executive, Finance Director, Head of Audit and the external auditors shall attend meetings at the standing invitation of the Committee.

Others shall attend if invited by the Committee.

- 6 There shall be at least one meeting a year during which the Committee can meet the external auditors and Head of Audit independently without management present.
- 7 The Secretary to the Board or his nominee shall be secretary of the Committee.

## **Frequency and timing of meetings**

- 8 Meetings shall be held not less than three times a year, and where appropriate should coincide with key dates in BWs financial reporting and audit cycle. The frequency and timing is decided by the Audit Committee Chairman.

There will be a sufficient interval between Audit Committee meetings and the main Board meetings to allow work arising from the Audit Committee meeting to be carried out and reported to the Board as appropriate.

- 9 External auditors or the Head of Audit may request a meeting if they consider that one is necessary.

- 10 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 Committee prior to the date of the meeting in a timely manner.

### **Authority**

- 11 The Committee is authorised by the Board to investigate any activity within its terms of reference. It has unrestricted access to BWs management, books and records and is authorised to seek any information that it requires from any employee. All employees shall be directed to cooperate with any request made by the Committee.
- 12 The Committee is authorised to obtain outside legal, accounting or other independent professional advice at BWs expense and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.
- 13 The Head of Audit shall be given the right of direct access to the chairman of the Committee.

### **Responsibilities**

- 14 The responsibilities of the Committee shall be to identify any matters in respect of which it considers that action or improvement is needed, and make recommendations as to the steps to be taken. In particular:

#### **External audit**

- a to consider the appointment of the external auditor, the audit fee, and any questions of resignation or dismissal and, having done so, make recommendations to the Secretary of State regarding the appointment
- b to discuss with the external auditor, before the audit commences, the nature and scope of the audit and to review the auditors' quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements
- c to assess the independence and objectivity of the external auditor, ensuring that key partners are rotated at appropriate intervals
- d to approve any fees in respect of non audit services provided by the external auditor and to ensure that the provision of non audit services does not impair the external auditors' independence or objectivity
- e to discuss with the external auditor issues such as compliance with accounting standards and proposals by the external auditor regarding the internal auditing standards
- f to review, with the external auditors, the findings of their work, including:
  - discussing the major issues that arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved
  - reviewing key accounting and audit judgements, and
  - reviewing levels of errors identified during the audit, obtaining explanations from management and, where necessary the external auditors, as to why certain errors might remain unadjusted

- g to review the external auditor's management letter and management's response
- h to meet with the external auditor at the reporting stage post audit to discuss the audit, including problems and reservations arising and any matters the auditor may wish to discuss
- i at the end of the annual audit cycle review the performance of the external auditors, including the cost effectiveness of the audit. In the course of doing so, the Audit Committee should assess the effectiveness of the external audit process by:
  - reviewing whether the auditor has met the agreed audit plan and understand the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks
  - considering the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements identified and in responding to questions from the audit committees, and in their commentary where appropriate on the systems of internal control
  - obtaining feedback about the conduct of the audit from key people involved, eg the Finance Director and the Head of Audit, and
  - reviewing and monitoring the content of the external auditor's management letter, in order to assess whether it is based on a good understanding of the BWs business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon.

### **Internal audit and corporate governance**

- j to review the annual internal audit programme, ensure coordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within BW
- k to consider periodically the effectiveness of Internal Audit by reviewing the progress reports, any major external or internal audit recommendations and any major findings of internal investigations and management's responsiveness to them
- l to monitor and review annually the effectiveness of the internal audit function, reporting its findings and recommendations for improvement to the Board, and feeding back the results to the Head of Audit
- m to give prior approval to the appointment or termination of appointment of the Head of Audit
- n to review the procedures for handling allegations from whistleblowers
- o policies for preventing or detecting fraud
- p to review reports from management and Internal Audit on the effectiveness of systems for internal control, financial reporting and risk management

### **Annual statements**

- q to review, and challenge where necessary, the actions and judgements of management, in relation to the integrity of the annual statements before submission to the Board, paying particular attention to:
  - significant accounting policies and practices, and any changes in them
  - decisions or estimates requiring a major element of judgement
  - the methods used to account for significant or unusual transactions where the accounting treatment is open to different approaches

- the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed
  - the clarity and completeness of disclosures and whether these are set properly in context
  - significant adjustments resulting from the audit
  - the going concern assumption
  - compliance with accounting standards
  - compliance with stock exchange and other legal requirements
  - compliance with the Combined Code on Corporate Governance
- r to review the external audit representation letters before signature by management and give particular consideration to matters where representation has been requested that relate to nonstandard issues. The Audit Committee should consider whether the information provided is complete and appropriate based on its own knowledge.
- s to review and approve the statement on internal control and management of risk prior to endorsement by the Board and to review the policies and process for identifying and assessing business risks and the management of those risks, and
- t to consider other topics, as defined by the Board.
- 15 In discharging their responsibilities the Audit Committee Chairman, and to a lesser extent the other Members, should keep in touch on a continuing basis with the key people involved in BWs governance, including the BW Chairman, the Chief Executive, the Finance Director, the external audit partner and the Head of Audit.

### **Reporting procedures**

- 16 The secretary shall circulate the minutes of meetings of the Committee to all members of the Board.
- 17 The chairman of the Committee shall report to the Board on all meetings of the Committee identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.
- 18 The Committee members shall conduct an annual review of their work and these terms of reference and make recommendations to the Board.
- 19 The Committee's duties and activities during the year shall be disclosed in the annual financial statements.
- 20 The chairman shall attend the Annual Meetings and shall be prepared to answer questions, through the BW Chairman, on the Audit Committee's activities and its responsibilities.

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