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DIGNITY PLC

**AUDIT COMMITTEE:
TERMS OF REFERENCE**

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DIGNITY PLC
("COMPANY")

AUDIT COMMITTEE: TERMS OF REFERENCE

1. DEFINITIONS

In these terms of reference:

"**Committee**" means the audit committee of the board; and

"**Group**" means the Company and its subsidiary undertakings from time to time.

2. INTRODUCTION

The primary purpose of the Committee is to assist the board in fulfilling its oversight responsibilities. In performing its duties, the Committee will maintain effective working relationships with the board, the Company's management and the external auditors. To perform his or her role effectively, each member of the Committee must be familiar with these terms of reference as well as the Company's business operations and risks.

3. MEMBERSHIP

3.1 The Committee shall comprise at least three members. Members of the Committee shall be appointed by the board, on the recommendation of the nomination committee in consultation with the chairman of the Committee.

3.2 All members of the Committee shall be independent non-executive directors, at least one of whom shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accounting bodies. The chairman of the board shall not be a member of the Committee.

3.3 Only members of the Committee have the right to attend Committee meetings. However, the external auditor and finance director will be invited to attend meetings of the Committee on a regular basis and other non-members may be invited to attend all or any part of any meeting as and when appropriate and necessary.

3.4 Appointments to the Committee shall be for a period of up to three years, which may be extended by no more than two additional three year periods, so long as the member continues to be independent.

3.5 The board shall appoint the chairman of the Committee who shall be an independent non-executive director. In the absence of the chairman of the Committee and/or an appointed deputy, the remaining members present shall elect one of their number to chair the meeting.

4. SECRETARY

The Company secretary or his/her nominee shall act as the secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

5. QUORUM

The quorum necessary for the transaction of business shall be two members.

6. FREQUENCY OF MEETINGS

- 6.1 The Committee shall meet at least three times a year at appropriate times in the financial reporting and audit cycle and otherwise as required.
- 6.2 Outside of the formal meeting programme, the chairman of the Committee will maintain a dialogue with key individuals involved in the Company's governance, including the chairman of the board, the chief executive, the finance director, the external audit lead parties and the head of internal audit.

7. NOTICE OF MEETINGS

- 7.1 Meetings of the Committee shall be called by the secretary of the Committee at the request of any of its members, or at the request of the external auditor or internal auditor if they consider it necessary.
- 7.2 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 Committee, any other person required to attend and all other non-executive directors no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time.

8. MINUTES OF MEETINGS

- 8.1 The secretary of the Committee shall minute the proceedings and decisions of all Committee meetings, including recording the names of those present and in attendance, unless a conflict of interest exists.
- 8.2 The secretary of the Committee shall ascertain, at the beginning of each Committee meeting, the existence of any conflicts of interest and minute them accordingly.
- 8.3 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the board, unless a conflict of interest exists or, in the opinion of the chairman of the Committee, it would otherwise be inappropriate to do so.

9. AGM

The chairman of the Committee shall attend the annual general meeting to answer shareholder questions on the Committee's activities.

10. DUTIES

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

10.1 Financial reporting

- 10.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports and accounts, interim management statements, announcements of preliminary results and any other formal announcement relating to its financial performance, reviewing and reporting to the board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor.

The Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.

- 10.1.2 In particular, the Committee shall review and challenge where necessary:
- 10.1.2.1 the consistency of, and any changes to, significant accounting policies, both on a year-on-year basis and across the Group;
 - 10.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
 - 10.1.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - 10.1.2.4 the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
 - 10.1.2.5 all material information presented with the financial statements, such as the strategic report and the corporate governance statement relating to the audit and to risk management.
- 10.1.3 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the board.

10.2 **Narrative reporting**

The content of the annual report and accounts shall be decided by the board, however, where requested by the board, the 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 shareholder to assess the Company's performance, business model and strategy.

10.3 **Internal controls and risk management systems**

The Committee shall:

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

10.4 **Whistleblowing**

The Committee shall 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 Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

10.5 Internal audit

The Committee shall:

- 10.5.1 approve the appointment and termination of the head of internal audit;
- 10.5.2 review and approve the charter of the internal audit function, and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 10.5.3 ensure the internal auditor has direct access to the chairman of the board and to the chairman of the Committee, and is accountable to the Committee;
- 10.5.4 review and assess the annual internal audit work plan;
- 10.5.5 receive a report on the results of the internal auditor's work on a periodic basis;
- 10.5.6 review and monitor management's responsiveness to the internal auditor's findings and recommendations;
- 10.5.7 meet with the head of internal audit at least once a year, without the presence of management; and
- 10.5.8 monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system.

10.6 External audit

The Committee shall:

- 10.6.1 consider and make recommendations to the board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment or removal of the Company's external auditor;
- 10.6.2 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 10.6.3 oversee the relationship with the external auditor, including (but not limited to):
 - 10.6.3.1 recommendations on their remuneration, including both fees for audit or non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
 - 10.6.3.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - 10.6.3.3 assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the external auditor as a whole, including the provision of any non-audit services;
 - 10.6.3.4 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) which could adversely affect the auditor's independence and objectivity;

- 10.6.3.5 monitoring the external auditor's compliance with 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;
 - 10.6.3.6 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; and
 - 10.6.3.7 seeking to ensure co-ordination with the activities of any internal audit function.
- 10.6.4 meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage and at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit;
- 10.6.5 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team; and
- 10.6.6 review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:
- 10.6.6.1 a discussion of any major issues which arose during the audit;
 - 10.6.6.2 key accounting and audit judgements;
 - 10.6.6.3 levels of errors identified during the audit; and
 - 10.6.6.4 the effectiveness of the audit process.

The Committee shall also:

- 10.6.7 review any representation letter(s) requested by the external auditor before they are signed by management;
- 10.6.8 review the management letter and management's response to the external auditor's findings and recommendations; and
- 10.6.9 develop and implement a policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.

11. REPORTING RESPONSIBILITIES

- 11.1 The chairman of the Committee shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the board on how it has discharged its responsibilities. The report shall include:
- 11.1.1 the significant issues that it considered in relation to the financial statements and how these were addressed;
 - 11.1.2 its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
 - 11.1.3 any other issues on which the board has requested the Committee's opinion.
- 11.2 The 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 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 committee has addressed the effectiveness of the external audit process, the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor, and all other information requirements set out in the UK Corporate Governance Code.
- 11.4 In compiling the reports referred to in paragraphs 11.1 and 11.3, the 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 Committee shall:
- 12.1.1 have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
 - 12.1.2 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;
 - 12.1.3 give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate;
 - 12.1.4 be responsible for co-ordination of the internal and external auditors;
 - 12.1.5 oversee any investigation of activities which are within its terms of reference;
 - 12.1.6 work and liaise as necessary with all other board committees;

12.1.7 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; and

12.1.8 ensure that these terms of reference are made available by placing them on the Company's website.

12.2 General duties

In carrying out his specific duties set out above, each member of the Committee should also consider his general duties as a director of the Company, including:

12.2.1 his duty to act in the way he considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to all relevant factors;

12.2.2 his duty to exercise independent judgment;

12.2.3 his duty to exercise reasonable care, diligence and skill;

12.2.4 his duty to avoid conflicts of interest; and

12.2.5 his duty to act in accordance with the Company's constitution and only exercise his powers for the purposes for which they were conferred.

13. AUTHORITY

The Committee is authorised to:

13.1 seek any information it requires from any employee of the Company in order to perform its duties;

13.2 obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes necessary to do so;

13.3 call any employee to be questioned at a meeting of the Committee as and when required; and

13.4 have the right to publish in the Company's annual report, details of any issues that cannot be resolved between the Committee and the board.