

## Saga plc (the Company)

# Terms of Reference of the Audit Committee of the Board of Directors of the Company

**adopted by the Board on 18 September 2019**

The following are the terms of reference of the Audit Committee (the “Committee”) of Saga plc (the “Company”) and its subsidiaries (together, the “Group”), save to the extent that the subsidiaries have their own audit committees.

## 1. Membership

- 1.1 The Committee shall comprise at least three members, all of whom shall be independent non-executive directors. Membership of the Committee shall include at least one member of the Risk Committee, and where possible, a member of the Remuneration Committee. Members of the Committee shall be appointed by the board of directors (“the Board”), on the recommendation of the Nomination Committee in consultation with the Chair of the Committee (the “Chair”).
- 1.2 At least one member shall have significant, recent and relevant financial experience and with competence in accounting and/or auditing. The Audit Committee as a whole shall have competence relevant to the sector in which the Company operates. The Chairman of the Board shall not be a member of the Committee.
- 1.3 The Board shall appoint the Chair, and determine the period for which they shall hold office. In the absence of the Chair and/or an appointed deputy, the Committee members present shall elect one of themselves to chair the meeting who would qualify under these terms of reference to be appointed to that position by the Board.
- 1.4 Only Committee members have the right to attend and vote at Committee meetings. However, the Committee should normally invite the Group Chief Financial Officer, the Head of Internal Audit and the external auditor and may invite any directors or other executives of the Company and other non-members to attend all or part of any meetings as and when appropriate and necessary by the Board or the Committee.
- 1.5 Appointments to the Committee shall be for a period of up to three years, extendable by no more than two additional three-year periods, provided the director still meets the criteria for membership of the Committee.

## 2. Secretary

- 2.1 The Company Secretary (the “Secretary”), or his or her nominee, shall act as 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 the issues.

## 3. Quorum

- 3.1 The quorum necessary for the transaction of business shall be two members of the Committee, at least one of whom should have significant, recent and relevant financial experience.
- 3.2 A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise any or all of the authorities, powers and discretions vested in or exercisable by the Committee.

- 3.3 All of the members of the Committee may participate in a meeting of the Committee by means of a conference telephone or any communication equipment which allows all persons participating in the meeting to hear each other. A member of the Committee so participating shall be deemed to be present in person at the meeting and shall be entitled to participate fully and be counted in the quorum accordingly.

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

- 4.1 The Committee shall meet at least three times a year at appropriate times in the financial reporting and audit cycle and otherwise as required.
- 4.2 Outside of the formal meeting programme, the Chair will maintain a dialogue with key individuals involved in the Company's governance, including the Board Chairman, the Group Chief Executive Officer, the Group Chief Financial Officer, the external audit lead partner and the Group Head of Internal Audit.

#### **5 Notice of Meetings**

- 5.1 Meetings of the Committee shall be convened by the Secretary at the request of any of its members or at the request of the external audit lead partner or Group Head of Internal Audit if they consider a meeting necessary.
- 5.2 Unless otherwise agreed by all Committee members, notice of each meeting confirming the venue, time and date and dial-in details (if required) of the meeting, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, all other non-executive directors and any other person required to attend as soon as practicable, and in any event no later than five working days before the date of the meeting. The agenda shall be circulated together with relevant supporting papers to Committee members and to other attendees as appropriate.

#### **6 Minutes of Meetings**

- 6.1 The Secretary, or his or her nominee, shall minute the proceedings of all meetings of the Committee, including recording the names and job titles of those present and in attendance.
- 6.2 The members of the Committee shall, at the beginning of each meeting, declare the existence of any conflicts of interest arising and the Secretary, or his or her nominee, shall minute them accordingly.
- 6.3 Draft minutes of Committee meetings shall be circulated promptly to the Chair and, once agreed, to all members of the Committee and to all other members of the Board, unless in the opinion of the Chair it would be inappropriate to do so.

#### **7 Annual General Meeting**

- 7.1 The Chair shall attend the annual general meeting of the Company prepared to respond to any shareholder questions on the Committee's activities and responsibilities.

## 8 Duties

The principal role of the Committee is to work closely with the Risk Committee to monitor the integrity of the Group's financial statement and the effectiveness of the systems of internal controls and to monitor the effectiveness, performance and objectivity of the internal and external auditors. The Committee shall consider any matters relevant to the Committee's remit that are referred to it by the Board or Board committees. The Committee shall have the following duties:

### 8.1 Financial reporting

8.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, any preliminary results announcement and any other formal announcement relating to its financial performance (as requested by the Board), 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 external auditor or internal audit.

8.1.2 In particular, the Committee shall review and challenge where necessary:

8.1.2.1 the consistency of, application of and any changes to, significant accounting and treasury policies both on a year on year basis and across the Company and Group;

8.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;

8.1.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

8.1.2.4 the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;

8.1.2.5 all material information presented with the financial statements, such as the strategic report, the corporate governance statements relating to the audit and to risk management and the internal control and risk management statement; and

8.1.2.6 the effectiveness of the Group's financial reporting procedures.

8.1.3 The Committee shall review any other statement requiring board approval which contains Group financial information first, where to carry out a review prior to board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules or Disclosure Guidance and Transparency Rules sourcebook.

8.1.4 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.

### 8.2 Narrative reporting

- 8.2.1 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 shareholders to assess the Company's performance, business model and strategy.
- 8.2.2 The Committee should review the assumptions on which the assessment of statement of going concern are based and confirm to the Board whether the Committee considers it appropriate in preparing annual and half-yearly financial statements and identify any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- 8.2.3 The Committee should confirm to the Board whether it is reasonable to expect that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary and recommend to the Board a viability statement, taking account of Group's current position and principal risks, including:
  - 8.2.3.1 how the prospects of the Group have been assessed;
  - 8.2.3.2 over what period the assessment has been done so; and
  - 8.2.3.3 why the Committee consider that period to be appropriate.

### 8.3 Internal controls

The Committee shall:

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

### 8.4 Whistleblowing and fraud

The Committee shall:

- 8.4.1 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;
- 8.4.2 review the Company's procedures for detecting fraud; and
- 8.4.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance and consider appropriate action.

### 8.5 Internal audit

The Committee shall:

- 8.5.1 approve the appointment or termination of appointment of the Group Head of Internal Audit;

- 8.5.2 review and approve the budget for the internal audit function;
- 8.5.3 review and approve the role, mandate and charter of the internal audit function, and ensure the function has unrestricted scope and the necessary resources and access to information to enable it to fulfil its mandate effectively, and is equipped to perform in accordance with appropriate professional standards for internal auditors, and has adequate standing, and is free from management or other restrictions;
- 8.5.4 ensure the Group Head of Internal Audit has direct access to the Board Chairman, the Chair and Committee and is accountable to the Committee;
- 8.5.5 review and approve the annual internal audit work plan to ensure it is aligned to the Group strategy;
- 8.5.6 ensure that the internal audit function evaluates the effectiveness of risk, compliance and finance functions as part of its internal audit plan;
- 8.5.7 receive periodic (at least once a year) assurance from internal audit on its third line of defence review of the functioning of the risk management framework;
- 8.5.8 assess the effectiveness of the internal audit function, and as part of this assessment:
- meet with the Group Head of Internal Audit at least once a year without the presence of management to discuss their remit and any issues arising from the internal audit reviews and the effectiveness of the function;
  - review and assess the annual internal audit work plan;
  - receive a report on the results of the internal audit's work on a periodic basis;
  - review and monitor management's responsiveness to the internal audit's findings and recommendations and actions taken by management to implement the recommendations of internal audit; and
  - monitor the role of the Company's internal audit function (including its quality, experience and expertise), in the context of the Company's overall risk management system.
- 8.5.9 consider (at least every 3 years) whether an independent, third party review of processes is appropriate.

The Chair shall (taking into account the views of the Group Chief Financial Officer):

- 8.5.10 be accountable for setting the objectives of the Group Head of Internal Audit and for appraising his/her performance. This appraisal should consider the independence, objectivity and tenure of the head of internal audit; and
- 8.5.11 recommend the remuneration of the Group Head of Internal Audit to the Remuneration Committee and ensure that the remuneration of the Group Head of Internal Audit and other internal audit staff: (i) is structured to avoid conflicts of interest; (ii) does not impair independence and objectivity; and (iii) is not directly or exclusively linked to the short term performance of the Group.

## 8.6 External Audit:



The Committee shall:

- 8.6.1 consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- 8.6.2 ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent external auditor with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process. Where the Company has not completed a competitive tender process in relation to five consecutive financial years, the Committee shall determine in which financial year it is in the best interest of the Company's members to next complete a competitive tender process and provide a relevant explanation in the Audit Committee report in accordance with the Statutory Auditors and Third Country Auditors Regulations 2016;
- 8.6.3 if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 8.6.4 oversee the relationship with the external auditor including (but not limited to):
  - 8.6.4.1 determining their remuneration, including both fees for audit and non-audit services, and ensuring that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - 8.6.4.2 review and approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit, ensuring that it has been updated to reflect changes in circumstances arising since the previous year;
  - 8.6.4.3 monitoring, reviewing and assessing annually their independence and objectivity and the effectiveness of the audit process taking into account relevant UK law, regulation, the ethical standards and other professional requirements and the relationship with the external auditor as a whole, including any threats to the external auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services;
  - 8.6.4.4 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 external auditor's independence and objectivity;
  - 8.6.4.5 ensuring that the employment of former employees of the Company's external auditor, will take into account relevant ethical standards and any legal requirements, and monitoring the implementation of such standards;
  - 8.6.4.6 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 regulatory requirements;

- 8.6.4.7 assessing annually the qualifications, expertise and resources of the external auditor and the effectiveness of the audit process (including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee) taking into account the relevant professional and regulatory requirements, which shall include a report from the external auditor on their own internal quality procedures and steps taken by the external auditor to respond to changes in regulatory and other requirements;
- 8.6.4.8 seeking to ensure co-ordination between the external auditor and the activities of the internal audit function; and
- 8.6.4.9 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.
- 8.6.5 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, meet without management being present, to discuss the external auditor's remit and any issues arising from the audit;
- 8.6.6 discuss with the external auditor the factors that could affect audit quality and 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;
- 8.6.7 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
  - 8.6.7.1 a discussion of any major issues, difficulties or reservations which arose during the audit;
  - 8.6.7.2 key accounting and audit judgements;
  - 8.6.7.3 levels of errors identified during the audit;
  - 8.6.7.4 the effectiveness of the audit process including the external auditor's explanation of how the risks to audit quality were addressed;
  - 8.6.7.5 the external auditor's view of their interactions with senior management;
  - 8.6.7.6 the basis for the going concern assumption; and
  - 8.6.7.7 compliance with relevant financial reporting standards and relevant financial and governance reporting requirements.

The Committee shall also:

- 8.6.8 review any representation letter(s) requested by the external auditor before they are signed by management;
- 8.6.9 review the management letter and management's response to the external auditor's findings and recommendations; and

- 8.6.10 develop and implement policy on the provision of non-audit services by the auditor, including approval of non-audit services by the committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:
- 8.7.10.1 threats to the independence and objectivity of the external auditor and any safeguards in place;
  - 8.7.10.2 the nature of the non-audit services;
  - 8.7.10.3 whether the external audit firm is the most suitable supplier of the non-audit service;
  - 8.7.10.4 the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
  - 8.7.10.5 the criteria governing compensation;

## **9 Reporting Responsibilities**

- 9.1 The Chair shall (verbally or otherwise) report to the Board on the Committee's proceedings after each meeting on all matters within its duties and responsibilities. The reports to the Board will include reference to how it has discharged its responsibilities, including (when appropriate):
- 9.1.1 the significant issues that it considered in relation to the financial statements (required under paragraph 8.2.1) and how these were addressed;
  - 9.1.2 its assessment of the effectiveness of the external audit process (required under paragraph 8.7.4.7) and its recommendation on the appointment or reappointment of the external auditor;
  - 9.1.3 its assessment of the effectiveness of the internal audit process (set out in paragraph 8.6); and
  - 9.1.4 any other issues on which the Board has requested the Committee's opinion.
- 9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3 When requested by the Board, conduct post investment reviews.
- 9.4 The Committee shall produce a report of 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; a statement from the Committee on whether it is satisfied that the internal audit function has the appropriate resources; a statement of compliance with the provisions of the Statutory Audit Services for Large companies Market Investigation (Mandatory Use of Competitive Tender Process and Audit Committee Responsibilities) Order 2014 and all other information requirements set out in the UK Corporate Governance Code (the "Code").



## 10 Other Matters

- 10.1 The Committee shall have access to sufficient resources in order to carry out its duties, including access to the Company Secretary and other Group functions for assistance as required.
- 10.2 The Committee shall be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members, and if a member wishes to attend specific training, the member may notify the Company Secretary who shall record and progress such request and take steps to ensure that such training is made available to the relevant member.
- 10.3 The Committee shall give due consideration to laws and regulations, the provisions of the Code and the requirements of the Financial Conduct Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate.
- 10.4 The Committee shall monitor the co-ordination of the internal and external auditors.
- 10.5 The Committee shall oversee any investigation of activities which are within its terms of reference.
- 10.6 The Committee shall arrange for periodic reviews of its own performance and its terms of reference, at least annually, to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.
- 10.7 The Committee shall work and liaise as necessary with all other Board committees, taking particular account of the fact that risk management has been delegated to the Risk Committee.

## 11 Authority

The Committee is authorised:

- 11.1 to undertake any activity within its terms of reference;
- 11.2 to seek any information it requires from any employee/director of the Group in order to perform its duties;
- 11.3 to obtain, at the Company's expense (within the limits authorised by the Board from time to time), external legal or other professional advice on any matter within its terms of reference where required and to invite persons giving such advice to attend Committee meetings;
- 11.4 to request the attendance of any employee at a meeting of the Committee as and when required;
- 11.5 to 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; and
- 11.6 to delegate any of its powers to one or more of its members or the Secretary.

These terms of reference were reviewed and approved by the Board on 18 September 2019.