

# ROLLS-ROYCE HOLDINGS PLC

## AUDIT COMMITTEE TERMS OF REFERENCE

Approve by the Board on 8 December 2011

### 1. COMPOSITION AND AUTHORITIES

- 1.1. The Chairman and members of the Audit Committee (“the Committee”) shall be appointed by the Board.
- 1.2. The Committee shall comprise at least three Directors of the Company, at least one of whom should have recent and relevant financial experience, none of whom shall hold executive responsibility in the Company and all of whom shall be independent as determined by the Board.
- 1.3. The Company Secretary or his nominee shall act as the Secretary of the Committee.
- 1.4. The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be authorised to exercise all or any of the powers and discretions vested in or exercisable by the Committee.
- 1.5. The Committee shall meet at least four times a year. The Head of Business Assurance or the external auditor may request a meeting if they consider that one is necessary.
- 1.6. Only members of the Committee shall be entitled to be present at Committee meetings. The Director of Risk, the Head of Business Assurance and a representative of the external auditor shall normally attend meetings. The Chairman of the Company, the Chief Executive, Finance Director and any other Director or senior executive shall attend Committee meetings at the invitation of the Chairman of the Committee.
- 1.7. At least once a year the Committee shall meet with the external auditor without executive Directors or management present. The Committee shall also meet at least once a year with the Director of Risk and the Head of Business Assurance without any of the executive Directors or management present.
- 1.8. The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. The Company shall meet the expense of such advice.
- 1.9. The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

## 2. RESPONSIBILITIES

2.1. The responsibilities of the Committee shall be:

- (a) to act in a way which the Committee considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole;
- (b) to oversee the Company's relations with the external auditor;
- (c) to consider and make recommendations to the Board for it to put to the shareholders for their approval in general meeting in relation to the appointment, re-appointment and removal of the external auditor;
- (d) to approve the terms of engagement and remuneration to be paid to the external auditor in respect of audit services provided;
- (e) to assess annually the qualification, expertise and resources and effectiveness of the external auditor and to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- (f) to discuss with the external auditor before the audit commences the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- (g) to review and recommend to the Board the half-yearly and annual financial statements, focusing particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) key accounting and audit judgements;
  - (iii) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
  - (iv) the clarity of disclosures;
  - (v) significant adjustments resulting from the audit;
  - (vi) the going concern assumptions;
  - (vii) compliance with accounting standards; and
  - (viii) compliance with London Stock Exchange, Financial Services Authority and legal requirements.
- (h) to monitor the integrity of the financial statements of the Company including the interim management statements and any formal announcements and trading statements relating to the Company's financial performance, reviewing significant financial reporting judgments contained in them;
- (i) to discuss problems and reservations arising from the external auditor's review of the interim financial statements and audit of the annual financial statements, and any other matters which the external auditor may wish to discuss;
- (j) to review the external auditor's management letter and management's response;

- (k) to review the external audit representation letters before consideration by the Board, giving particular consideration to non-standard issues;
- (l) to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services, by the external audit firm, and to report to the board, 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;
- (m) to review the Company's internal financial controls and the statement in the annual report and accounts on the Company's internal control systems and risk management framework prior to endorsement by the Board;
- (n) to assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks;
- (o) to review the Business Assurance programme and ensure co-ordination between Business Assurance and the external auditor;
- (p) to ensure that the Business Assurance function is adequately resourced and has appropriate standing within the Company;
- (q) to ensure that the Head of Business Assurance has direct access to the Chairman of the Company and the Chairman of the Committee and is accountable to the Committee;
- (r) to receive reports on the results of Business Assurance work on a periodic basis and to review and monitor management's response to Business Assurance's findings and recommendations;
- (s) to monitor and review the role and effectiveness of the Business Assurance function in the overall context of the Company's risk management system;
- (t) to be consulted about the appointment or the removal of the Head of Business Assurance and the Director of Risk;
- (u) to review the Company's procedures for detecting, monitoring and managing the risk of fraud. All confirmed instances of fraud should be reported for review by the Committee; and
- (v) to review any concerns about possible improprieties in matters of financial reporting which are referred to the Committee by the Ethics Committee.
- (w) to consider other topics, as defined by the Board.

### 3. REPORTING

- 3.1. The Committee shall report to the Board as appropriate.
- 3.2. The Committee shall prepare a report on its role and responsibilities and describe the work of the committee in discharging those responsibilities for inclusion in a

separate section of the annual report and accounts. If the auditor provides non-audit services the report should explain how auditor objectivity and independence is safeguarded.

- 3.3. The Chairman of the Committee shall be available to respond to any shareholders' questions at any general meeting of the Company.
- 3.4. The Committee shall review its terms of reference and its own effectiveness annually and recommend any changes to the Board. Its effectiveness will be evaluated externally and independently at least every three years.

#### 4. DUTIES OF THE SECRETARY

- 4.1. The Secretary shall be required to keep a proper and timely record of meetings of the Committee and circulate such minutes to all members of the Committee, the Board and to the Company's external auditor.
- 4.2. The Secretary shall ensure that the Committee is properly constituted within these Terms of Reference. Any actual or anticipated variance of these terms should be brought to the attention of the Chairman of the Committee and the Chairman of the Company as appropriate.
- 4.3. The Secretary shall ensure that these Terms of Reference are made available on the Company's website.