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## 1. Constitution

The Board of Serco Group plc (the 'Board') has reviewed and confirmed the establishment of a Committee of the Board to be known as the Audit Committee (the 'Committee').

## 2. Membership

- 2.1. The 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. The Chairman of the Committee shall be selected by the Board. In the absence of the Committee chairman and/or an appointed deputy at a Committee meeting, the remaining members present shall elect one of themselves to chair the meeting.
- 2.2. The Committee shall comprise at least three members. All members shall be independent Non-Executive Directors. The Committee shall include at least one member of the Group Risk Committee and, where possible, one member of the Remuneration Committee. At least one member shall have recent and relevant financial experience. The Committee as a whole shall have competent knowledge of the sectors within which the Company operates. The Chairman of the Board shall not be a member of the Committee.
- 2.3. Only members of the Committee shall have the right to attend Committee meetings. However, other individuals, including, but not limited to the Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Head of Internal Audit, the Group Financial Controller and the external auditors will be invited to attend meetings as and when appropriate. In addition, other members of the Board may attend with the Chairman's consent.
- 2.4. The Committee shall meet separately with the external auditor, the Chief Financial Officer and with the Head of Internal Audit at least twice a year, without management present.

## 3. Secretary

The Company Secretary or their nominee shall be the Secretary of the Committee.

## 4. Quorum

The quorum for meetings of the Committee shall be two members, at least one of whom shall have recent and relevant financial experience.

## 5. Frequency of meetings

Meetings shall be held not less than four times a year. The external or internal auditors may request a meeting if they consider that one is necessary. Meetings may be held physically or by telephone and additional meetings may be convened, as the Chairman of the Committee shall determine.

## 6. Notice of meetings

- 6.1. Meetings of the Committee shall be called by the Secretary of the Committee at the request any of its members or at the request of the external audit lead partner or Head of Internal Audit if they consider it necessary.

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- 6.2. Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the Committee, any other person required to attend and all other independent Non-Executive Directors, no later than five working days before the date of the meeting.
- 6.3. Notices, agendas and supporting papers can be sent in electronic form where the recipient has agreed to receive documents in such a way.

## 7. Minutes of meetings

- 7.1. The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 7.2. Draft minutes of Committee meetings shall be circulated promptly following each meeting to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board unless in the opinion of the Committee Chairman it would be inappropriate to do so.
- 7.3. The Chairman of the Committee shall report on the business of that Committee meeting at the next Board Meeting.

## 8. Annual General Meeting

The Committee Chairman should attend the annual general meeting to answer any shareholder questions on the Committee's activities.

## 9. Authority

- 9.1. 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 of the Group, supplier or adviser and all such persons are requested and required to cooperate with any request made by the Committee.
- 9.2. The Committee is authorised by the Board to obtain legal or other independent professional advice from both inside and outside the Company.

## 10. Duties

The duties of the Committee shall be:

### 10.1. Financial Reporting

- 10.1.1. To monitor the integrity of the financial statements of the Company and all formal announcements relating to the Company's financial performance, including but not limited to the preliminary announcement of annual results, the half-year report, and trading updates, ensuring that they are compliant with the requirements of the UK Listing Authority and laws and regulations.
- 10.1.2. To review the significant financial reporting issues and judgements contained in the financial statements of the Company and formal announcements relating to the Company's financial performance, paying particular attention to and challenging where necessary:
- the consistency of, and any changes to, significant accounting policies;

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- any policies involving significant estimates and judgements;
  - any significant adjustments resulting from the audit;
  - the methods used to account for significant or unusual transactions, where different accounting treatments are possible; and,
  - taking into account the views of the external auditor, whether the policies adopted by the Company, and any significant estimates and judgements, are appropriate and compliant with applicable accounting standards.
- 10.1.3. Where material, to review the related narrative information presented with the financial statements or financial-related announcements, such as those relating to financial performance, audit and risk management. In particular to assess whether the narrative information is:
- clear, complete and set properly in context; and,
  - consistent with the accounting information.
- 10.1.4. The Committee shall review any other statements requiring board approval, which contain 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.
- 10.1.5. On request by the Board, to advise the Board on whether, the content of the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.
- 10.1.6. To report separately to shareholders in the annual report, describing the work of the Committee in discharging its responsibilities including:
- the significant issues that it considered in relation to the financial statements, and how these issues were addressed;
  - an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor;
  - information on the length of tenure of the current audit firm, when a tender was last conducted and, if a tender has not been carried out in the previous five years, when the Company intends to carry out the next tender and why that date is in the interests of shareholders; and,
  - if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence has been safeguarded.
- 10.1.7. To review the following statements and descriptions in the annual report, and advise the Board whether they may properly be made:
- the viability statement concerning the prospects of the Company, including the justification of the period chosen;
  - the going concern statement; and,
  - in conjunction with the Group Risk Committee, the Company's internal financial controls, established to identify, assess and report financial risks.

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## 10.2. Internal Audit

- 10.2.1. To approve the appointment or removal of the Head of Internal Audit.
- 10.2.2. To approve the remit of the Internal Audit function and to ensure that it has the necessary resources and access to information to enable it to perform its function effectively.
- 10.2.3. To review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work, and annually approve the Internal Audit Charter ensuring it is appropriate for the current needs of the organisation.
- 10.2.4. To review reports arising from the internal audit programme and, where any significant deficiency is reported the response of management thereto.
- 10.2.5. At least annually, to monitor and review the effectiveness of the Internal Audit function and to oversee an independent review of the function at least every five years and determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business.
- 10.2.6. To review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function.
- 10.2.7. To monitor and review the effectiveness of the Company's internal control and risk management systems, including those relating to the financial control and reporting process.

## 10.3. External Audit

- 10.3.1. To consider and make recommendations to the Board concerning, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, reappointment and removal of the external auditor and to approve the remuneration to be paid to the external auditors in respect of audit services.
- 10.3.2. To develop and oversee the procedure for the tender and selection of the external auditor, ensuring that all tendering firms have access to all necessary information and individuals during tendering process.
- 10.3.3. In the event of the resignation of the external auditor, to investigate the issues leading to this and decide whether any action is required.
- 10.3.4. To oversee the relationship with the external auditor, including:
  - approval of the external auditor's engagement letter issued at the start of each audit;
  - agreeing with the external auditor, before the audit commences, the nature and scope of the audit;
  - seeking to ensure co-ordination of the external audit with the activities of the Internal Audit Function; and,
  - reviewing the audit findings with the external auditor, including:
    - any major issues that arose during the audit;
    - any significant accounting or audit judgements;
    - the levels of any errors identified; and,
    - the effectiveness of the audit process.
- 10.3.5. At least annually, to assess the independence and objectivity of the external auditor:
  - taking into consideration relevant regulatory and professional requirements and all relationships

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between the audit firm and the Company (including the provision of non-audit services) and any safeguards established by the external auditor;

- satisfying itself that there are no relationships (such as family, employment, financial or business) between the audit firm and the Company (other than in the ordinary course of business) that could adversely affect the external auditor's independence or objectivity; and
- seeking from the audit firm assurances and information about its policies and processes for maintaining independence and objectivity.

- 10.3.6. To ensure that audit partners and key staff are rotated at appropriate intervals.
- 10.3.7. To agree with the Board and oversee a policy on the employment of former employees of the external audit firm.
- 10.3.8. To develop and recommend to the Board the Company's formal policy on the supply of non-audit services by the external 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.
- 10.3.9. To ensure that the external auditor's independence and objectivity are safeguarded.
- 10.3.10. At least annually, to assess the qualifications, expertise and resources of the external auditor, including reviewing the external auditor's quality control procedures and its response to changes in professional guidance and regulatory requirements.
- 10.3.11. To monitor the level of fees paid by the Company to the external auditor compared to the overall fee income of the firm, office and partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the FRC Guidance on Ethical Standard for audit engagement.
- 10.3.12. To review any letter of representation requested by the external auditor in relation to the audit.
- 10.3.13. At least annually, to evaluate and report to the Board on the quality and effectiveness of the external audit process, taking into account:
- the extent to which the external auditor met the agreed audit plan;
  - the handling of key judgements by the auditor, and the auditor's response to questions from the committee;
  - the robustness and perceptiveness of the external auditor when dealing with key accounting and audit judgements;
  - the contents of the external auditor's management letter and any response thereto by management; and,
  - the level of understanding of the Company's business demonstrated by the external auditor.

#### 10.4. Further Responsibilities

- 10.4.1 To support the Corporate Responsibility Committee as required in the review of the effectiveness of Company's procedures for detecting and preventing fraud, bribery and corruption and in the review of the effectiveness of the Company's procedures for handling allegations by whistle-blowers.
- 10.4.2 To periodically review the Company's tax and treasury policies and profile.
- 10.4.3 To consider, in conjunction with the Group Risk Committee, the Company's approach to the management of Cyber Security.

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## 10.5. General

### 10.5.1 At least annually:

- to report to the Board on how the Committee has discharged its responsibilities;
- to review its own performance and report thereon to the Board; and,
- to review the Committee's Terms of Reference and to recommend any necessary changes to the Board.

### 10.5.2 To make available its Terms of Reference explaining clearly its role and the authority delegated to it by the Board.

### 10.5.3 To consider other topics, as required by the Board from time to time.

## 11. Other matters

The Committee shall:

11.1. Have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for assistance as required.

11.2. 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.

11.3. Give due consideration to laws and regulations, the provisions of the Code and the requirements of the UK Listing Authority's Listing, Disclosure and Transparency Rules and any other applicable rules, as appropriate.

11.4. Arrange for periodic review 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 consider necessary to the Board for approval.

11.5. Work and liaise as necessary with all other Board Committees, taking particular account of the impact of risk management and internal controls being delegated to different Committees.

**Approved by the Board of Serco Group plc  
7 December 2017**