

## **BALFOUR BEATTY plc**

### **BOARD COMMITTEES**

#### **2. AUDIT COMMITTEE**

##### **1. Membership**

1.1 The Committee shall be appointed by the Board and its membership shall be as set out in the Board Committee Membership Schedule. All members of the Committee shall be independent Non-Executive Directors of the Company at least one of whom shall have recent and relevant financial experience. The Committee shall comprise of not less than three members. The Chairman of the Board shall not be a member of the Committee.

1.2 The Finance Director, the Deputy Finance Director, the Head of Group Audit and a representative of the external auditors shall normally attend at the invitation of the Committee.

1.3 Other Board members and employees may attend if invited by the Chairman of the Committee.

1.4 Appointments to the Committee shall be for a period of up to three years, extendable by no more than two additional three-year periods, so long as members continue to be independent.

1.5 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 appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

##### **2. Secretary**

The Secretary of the Company (or their nominee) will be Secretary of the Committee.

##### **3. Quorum**

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

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

4.1 Meetings shall be held not less than four times each year and at such other times as the Chairman of the Committee shall deem necessary.

4.2 At least once a year the Committee shall meet separately with the external auditors, the Finance Director and with the Head of Group Audit without management present.

- 4.3 The external auditors, the Finance Director and the Head of Group Audit shall each have the right to request such meetings (paragraph 4.2) at any time if they consider them necessary.

5. **Notice of Meetings**

- 5.1 Meetings of the Committee shall be convened by the Secretary of the Committee at the request of the Chairman of the Committee or any of its members.
- 5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be provided to each member of the Committee, and any other person required to attend no fewer than three working days (if practicable) prior to the date of the meeting. Supporting papers shall be sent to members of the Committee and to other attendees as appropriate, at the same time.

6. **Minutes of Meeting**

- 6.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the name of those present and in attendance.
- 6.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. The Chairman shall ensure that, in the event of any conflicts of interest being noted, appropriate control measures are taken in the way such conflicts are managed at that meeting.
- 6.3 Minutes of the Committee meeting shall be circulated to the Committee and to all members of the Board (unless a conflict of interest exists).

7. **Annual General Meeting**

The Chairman of the Committee shall attend the Annual General Meeting of the Company and shall respond to any shareholder questions on the Committee's activities and responsibilities.

8. **Duties**

- 8.1 The Committee shall:
- 8.1.1 monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, before submission to the Board, paying particular attention to:
- (i) critical accounting policies and practices, and any changes in them;
  - (ii) decisions requiring major elements of judgement or estimation;

- (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 assumption;
  - (vii) compliance with accounting standards and making appropriate estimates and judgements made by management taking into account the views of the external auditor;
  - (viii) compliance with Financial Services Authority and other legal and regulatory requirements; and
  - (ix) any conflicts of interest or related party transactions;
- 8.2 review the Group's internal financial controls including the systems established to identify, assess, manage and monitor financial risks, and receive reports from management on the effectiveness of the systems they have established and the conclusions of any testing carried out by internal and external auditors;
- 8.3 monitor and review the effectiveness of the Company's internal audit function; approve the appointment or termination of the Head of Group Audit; review and approve the terms of reference of the internal audit function; ensure that the function has the necessary resources and access to information to fulfil its mandate; review and assess the annual internal audit work plan; receive periodic reports on the results of the Head of Group Audit's work; review and monitor management's responsiveness to the Head of Group Audit's findings and recommendations; and meet the Head of Group Audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the Head of Group Audit shall be given the right of direct access to the Chairman of the Board and to the Committee;
- 8.4 make recommendations for the Board to put to the shareholders for their approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the external auditor, after assessing annually the qualifications, expertise and resources, and independence, effectiveness and objectivity of the external auditor and the effectiveness of the audit process, taking into account relevant UK professional and regulatory requirements;

8.5 meet regularly with the external auditor, including once at the planning stage before the audit and once at the reporting stage. The Committee shall review and approve the annual external audit plan and ensure that it is consistent with the scope of the audit engagement and shall review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:

8.5.1 a discussion of any major issues which arose during the audit;

8.5.2 any accounting and audit judgements; and

8.5.3 levels of errors identified during the audit;

The Committee shall also meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;

8.6 approve the remuneration and terms of engagement of the external auditor;

8.7 review the external auditor's management letter and management's response;

8.9 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 auditor; and to report to the Board identifying any matters in respect of which it considers action or improvement is needed, and making recommendations as to the steps to be taken;

8.10 agree a policy on the employment of former employees of the external auditor, and monitor the implementation of this policy;

8.11 review arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters such as financial reporting, ensuring that arrangements are in place for the proportionate and independent investigation of such matters and their appropriate follow-up action;

8.12 review contract commission arrangements;

8.13 review Directors' expenses and benefits; and

8.14 consider other topics as defined by the Board; and

8.15 shall give due consideration to laws and regulations, including the general duties of Directors set out in the Companies Act 2006, the provisions of the Combined Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules, as appropriate.

9. **Reporting Procedures**

- 9.1 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.
- 9.2 The Committee shall at least once a year, review its own performance, constitution, and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board.
- 9.3 The Committee's responsibilities and activities during the year and how, if the external auditor provides non-audit services, auditor objectivity and independence is safeguarded, shall be disclosed in the Company's Annual Report.

10. **Authority**

- 10.1 The Committee is authorised to:
  - 10.1.1 obtain independent legal or professional advice, funded by the Company, on any matter it considers appropriate to its terms of reference, and such advisors may attend meetings as necessary;
  - 10.1.2 seek any information it requires from any employee of the Company, and all employees are directed to co-operate with any request made by the Committee; and
  - 10.1.3 avail itself of training it considers appropriate to ensure members have a sufficient understanding of the business of the Company and the environment in which it operates, and are kept up to date with relevant accounting, regulatory and legal developments including the general duties of directors set out in the Companies Act 2006, the provisions of the Combined Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules as appropriate.

Approved 7 October 2008  
Effective from 7 October 2008