

## A4 – Sample Terms of Reference

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### Audit Committee Sample Terms of Reference

Source: Institute of Chartered Secretaries & Administrators Guidance Note  
The square brackets contain recommendations which are in line with best practice but which may need to be changed to suit the circumstances of the particular organisation.

#### 1 Membership

- 1.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairperson of the Audit Committee. The Committee shall be made up of at least [3] members
- 1.2 All members of the Committee shall be independent Non Executive Directors<sup>3</sup> at least one of whom shall have recent and relevant financial experience. The Chairperson of the Board shall not be a member of the Committee<sup>4</sup>
- 1.3 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairperson of the Board, Chief Executive, Finance Director, other Directors, the heads of risk, compliance and internal audit and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate
- 1.4 The external auditors will be invited to attend meetings of the Committee on a regular basis
- 1.5 Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods, provided the Director remains independent
- 1.6 The Board shall appoint the Committee Chairperson who shall be an independent Non Executive Director. In the absence of the Committee Chairperson and/or an appointed deputy, the remaining members present shall elect one of their number present to chair the meeting

#### 2 Secretary

- 2.1 The Company Secretary or his/her nominee shall act as the Secretary of the Committee

#### 3 Quorum

- 3.1 The quorum necessary for the transaction of business shall be [2] members. A duly convened meeting of the Committee at which a quorum

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<sup>3</sup> An independent non-executive director is as defined in Combined Code Provision A.3.1

<sup>4</sup> Except on appointment, the Chairperson of the company is not considered to meet the test of independence. Combined Code provision A.3.1

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is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee

### 4 Frequency of Meetings

- 4.1 The Committee shall meet [at least three times a year at appropriate times in the reporting and audit cycle] [quarterly on the first Wednesday in each of January, April, July and October] and otherwise as required<sup>5</sup>

### 5 Notice of Meetings

- 5.1 Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members or at the request of external or internal auditors if they consider it necessary
- 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 forwarded to each member of the Committee, any other person required to attend and all other Non Executive Directors, no later than [5] 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

### 6 Minutes of Meetings

- 6.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance
- 6.2 The Secretary should ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly
- 6.3 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board

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<sup>5</sup> The frequency and timing of meetings will differ according to the needs of the company. Meetings should be organised so that attendance is maximised (for example by timetabling them to coincide with Board meetings).

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### 7 Annual General Meeting

- 7.1 The Chairperson of the Committee shall attend the annual general meeting prepared to respond to any shareholder questions on the Committee's activities

### 8 Duties <sup>6</sup>

The Committee should carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

#### 8.1 Financial Reporting

8.1.1 The Committee shall monitor the integrity of the financial statements of the company, including its annual and interim reports, preliminary results' announcements and any other formal announcements relating to its financial performance, reviewing significant financial reporting issues and judgements that they contain. 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

8.1.2 The Committee shall review and challenge where necessary:

- the consistency of, and any changes to, accounting policies both on a year-on-year basis and across the company/group
- the methods used to account for significant or unusual transactions where different approaches are possible
- whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor
- the clarity of disclosure in the company's financial reports and the context in which statements are made
- all material information presented with the financial statements, such as the operating and financial review and the Corporate Governance statement (insofar as it relates to the audit and risk management).

8.1.3 The Committee shall review the annual financial statements of the pension funds where not reviewed by the Board as a whole

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<sup>6</sup> The Companies (Auditing and Accounting) Act 2003 sets out the functions of the Audit Committee under the act. Once the Companies (Auditing and Accounting) Act 2003 is in operation, please refer to s42 of the 2003 Act

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### 8.2 Internal Controls and Risk Management Systems

**The Committee shall:**

- 8.2.1 keep under review the effectiveness of the company's internal controls and risk management systems
- 8.2.2 review and approve the statements to be included in the Annual Report concerning internal controls and risk management<sup>7</sup>

### 8.3 Whistleblowing

The Committee shall review the company's arrangements for its employees 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 Internal Audit

**The Committee shall:**

- 8.4.1 monitor and review the effectiveness of the company's internal audit function in the context of the company's overall risk management system<sup>8</sup>
- 8.4.2 approve the appointment and removal of the head of the internal audit function
- 8.4.3 consider and approve the remit of the internal audit function and ensure that it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure that the function has adequate standing and is free from management or other restrictions
- 8.4.4 review and assess the annual internal audit plan
- 8.4.5 review promptly all reports on the company from the internal auditors
- 8.4.6 review and monitor management's responsiveness to the findings and recommendations of the internal auditor
- 8.4.7 meet the head of internal 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,

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<sup>7</sup> Unless this is done by the Board as a whole

<sup>8</sup> If the company does not have an internal audit function, the Committee should consider annually whether there should be one and make recommendation to the Board accordingly. The absence of such a function should be explained in the Annual Report

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the head of internal audit shall be given the right of direct access to the Chairperson of the Board and to the Committee

### 8.5 External Audit

#### The Committee shall:

- 8.5.1 consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the company's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required
- 8.5.2 oversee the relationship with the external auditors including (but not limited to):
  - approving their remuneration, whether fees for audit or non-audit services and verifying that the level of fees is appropriate to enable an adequate audit to be conducted
  - approving their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit
  - assessing annually their independence and objectivity taking into account relevant [UK] professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services
  - satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the company (other than in the ordinary course of business)
  - agreeing with the Board a policy on the employment of former employees of the company's auditors, then monitoring the implementation of this policy
  - monitoring the 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
  - assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures
- 8.5.3 meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit
- 8.5.4 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement

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- 8.5.5 review the findings of the audit with the external auditor. This shall not include, but not be limited to, the following;
- a discussion of any major issues that arose during the audit
  - any accounting and audit judgements
  - levels of errors identified during the audit

### **The Committee shall also review the effectiveness of the audit**

- 8.5.6 review any representation letter(s) requested by the external auditor before being signed by management
- 8.5.7 review the management letter and management's response to the auditor's findings and recommendations
- 8.5.8 develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter

## **8.6 Reporting Responsibilities**

- 8.6.1 The Committee Chairperson shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities
- 8.6.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed
- 8.6.3 The Committee shall compile a report to shareholders on its activities to be included in the company's Annual Report

## **8.7 Other Matters**

### **The Committee shall:**

- 8.7.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required
- 8.7.2 be provided with appropriate and timely training, in the form of an induction programme for new members and on an ongoing basis for all members
- 8.7.3 give due consideration to laws and regulations, the provisions of the Combined Code and the requirements of the Irish Stock Exchange Listing Authority's Listing Rules and other listing rules as appropriate
- 8.7.4 be responsible for co-ordination of the internal and external auditors
- 8.7.5 oversee any investigation of activities that are within its Terms of Reference and act as a court of the last resort
- 8.7.6 at least once a year, review its own performance, constitution and Terms of Reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval

## **9 Authority**

### **The Committee is authorised:**

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- 9.1** to seek any information it requires from any employee of the company in order to perform its duties
- 9.2** to obtain, at the company's expense, outside legal or other professional advice on any matters within its Terms of Reference
- 9.3** to call any employee to be questioned at a meeting of the Committee as and when required

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### Nomination Committee Terms of Reference

Source: Institute of Chartered Secretaries & Administrators Guidance Note  
The square brackets contain recommendations which are in line with best practice but which may need to be changed to suit the circumstances of the particular organisation.

#### 1 Membership

- 1.1 Members of the Committee shall be appointed by the Board and shall be made up of at least [3] members, the majority of whom shall be independent Non Executive members
- 1.2 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive, the head of human resources and external advisors may be invited to attend for all or part of any meeting, as and when appropriate
- 1.3 Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods provided that the majority of the Committee members remain independent
- 1.4 The Board shall appoint the Committee Chairperson who should be either the Chairperson of the Board or an independent Non Executive Director. In the absence of the Committee Chairperson and/or an appointed deputy, the remaining members present shall elect one of their number to chair the meeting. The Chairperson of the Board shall not chair the Committee when it is dealing with the matter of succession to the chairpersonship.

#### 2 Secretary

- 2.1 The Company Secretary or his/her nominee shall act as the Secretary of the Committee

#### 3 Quorum

- 3.1 The quorum necessary for the transaction of business shall be [2] both of whom must be independent Non Executive Directors. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee

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### 4 Frequency of Meetings

- 4.1 The Committee shall meet [at least twice a year] [quarterly on the first Wednesday in each of January, April, July and October] and at such other times as the Chairperson of the Committee shall require<sup>9</sup>

### 5 Notice of Meetings

- 5.1 Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of the Chairperson of the Committee
- 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 forwarded to each member of the Committee, any other person required to attend and all other Non Executive Directors, no later than [5] 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

### 6 Minutes of Meetings

- 6.1 The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance
- 6.2 Minutes of Committee meetings shall be circulated to all members of the Committee and the Chairperson of the Board and, once agreed, to all other members of the Board, unless a conflict of interest exists

### 7 Annual General Meeting

- 7.1 The Chairperson of the Committee shall attend the annual general meeting prepared to respond to any shareholder questions on the Committee's activities

### 8 Duties

- 8.1 The Committee shall:
- 8.1.1 regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any changes
  - 8.1.2 give full consideration to succession planning for Directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the company, and what skills and expertise are therefore needed on the Board in the future

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<sup>9</sup> The frequency and timing of meetings will differ according to the needs of the company. Meetings should be organised so that attendance is maximised (for example by timetabling them to coincide with Board meetings)

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- 8.1.3 be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise
- 8.1.4 before appointment is made by the Board, evaluate the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates the Committee shall:
- use open advertising or the services of external advisors to facilitate the search
  - consider candidates from a wide range of backgrounds
  - consider candidates on merit and against objective criteria, taking care that appointees have enough time available to devote to the position
- 8.1.5 keep under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace
- 8.1.6 keep up to date and fully informed about strategic issues and commercial changes affecting the company and the market in which it operates
- 8.1.7 review annually the time required from Non Executive Directors. Performance evaluation should be used to assess whether the Non Executive Directors are spending enough time to fulfil their duties
- 8.1.8 ensure that on appointment to the Board, Non Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside board meetings
- 8.2** The Committee shall also make recommendations to the Board concerning:
- 8.2.1 formulating plans for succession for both Executive and Non Executive Directors and in particular for the key roles of Chairperson and Chief Executive (see 8.2.8 below)
- 8.2.2 suitable candidates for the role of senior independent Director
- 8.2.3 membership of the Audit and Remuneration Committees, in consultation with the Chairpersons of those committees
- 8.2.4 the re-appointment of Non Executive Directors at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute

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- to the Board in the light of the knowledge, skills and experience required
- 8.2.5 the continuation (or not) in service of any Director who has reached the age of [70]
- 8.2.6 the re-election by shareholders of any Director under the 'retirement by rotation' provisions in the company's Articles of Association, having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required
- 8.2.7 any matters relating to the continuation in office of any Director at any time including the suspension or termination of service of an Executive Director as an employee of the company subject to the provisions of the law and that person's service contract
- 8.2.8 the appointment of any Director to executive or other office other than to the positions of Chairperson and Chief Executive, the recommendation for which would be considered at a meeting of the full Board

### 9 Reporting Responsibilities

- 9.1 The Committee Chairperson 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 make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed
- 9.3 The Committee shall make a statement in the annual report about its activities and the process used to make appointments; and explain if external advice or open advertising has not been used

### 10 Other

- 10.1 The Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval

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### 11 Authority

- 11.1 The Committee is authorised to seek any information it requires from any employee of the company in order to perform its duties
- 11.2 The Committee is authorised to obtain, at the company's expense, outside legal or other professional advice on any matters within its Terms of Reference

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### Remuneration Committee Terms of Reference

Source: Institute of Chartered Secretaries & Administrators Guidance Note  
The square brackets contain recommendations which are in line with best practice but which may need to be changed to suit the circumstances of the particular organisation.

#### 1 Membership

- 1.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairperson of the Remuneration Committee. The Committee shall be made up of at least [3] members, all of whom are independent Non Executive Directors
- 1.2 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive, the head of human resources and external advisors may be invited to attend for all or part of any meeting, as and when appropriate
- 1.3 Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods provided the Director remains independent
- 1.4 The Board shall appoint the Committee Chairperson who shall be an independent Non Executive Director. In the absence of the Committee Chairperson and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting. The Chairperson of the Board shall not be Chairperson of the Committee

#### 2 Secretary

- 2.1 The Company Secretary or his/her nominee shall act as the Secretary of the Committee

#### 3 Quorum

- 3.1 The quorum necessary for the transaction of business shall be [2]. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee

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### 4 Meetings

- 4.1 The Committee shall meet [at least twice a year] [quarterly on the first Wednesday in each of January, April, July and October] and at such other times as the Chairperson of the Committee shall require<sup>10</sup>

### 5 Notice of Meetings

- 5.1 Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of 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 forwarded to each member of the Committee, any other person required to attend and all other Non Executive Directors, no later than [5] 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

### 6 Minutes of Meetings

- 6.1 The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance
- 6.2 Minutes of Committee meetings shall be circulated to all members of the Committee and, once agreed, to all members of the Board, unless a conflict of interest exists

### 7 Annual General Meeting

- 7.1 The Chairperson of the Committee shall attend the annual general meeting prepared to respond to any shareholder questions on the Committee's activities

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<sup>10</sup> The frequency and timing of meetings will differ according to the needs of the company. Meetings should be organised so that attendance is maximised (for example by timetabling them to coincide with Board meetings)

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### 8 Duties

The Committee shall:

- 8.1 determine and agree with the Board the framework or broad policy for the remuneration of the company's Chief Executive, the Chairperson, the Executive Directors, the Company Secretary and such other members of the executive management as it is designated to consider<sup>11</sup>. The remuneration of Non Executive Directors shall be a matter for the Chairperson and the executive members of the Board. No Director or manager shall be involved in any decisions as to his or her own remuneration
- 8.2 in determining such policy, take into account all factors, which it deems necessary. The objective of such policy shall be to ensure that members of the executive management of the company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the company
- 8.3 review the ongoing appropriateness and relevance of the remuneration policy
- 8.4 approve the design of, and determine targets for, any performance-related pay schemes operated by the company and approve the total annual payments made under such schemes
- 8.5 review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to Executive Directors and other senior executives and the performance targets to be used
- 8.6 determine the policy for, and scope of, pension arrangements for each Executive Director and other senior executives
- 8.7 ensure that contractual terms on termination, and any payments made, are fair to the individual, and the company, that failure is not rewarded and that the duty to mitigate loss is fully recognised
- 8.8 within the terms of the agreed policy and in consultation with the Chairperson and/or Chief Executive as appropriate, determine the total individual remuneration package of each Executive Director and other senior executives including bonuses, incentive payments and share options or other share awards
- 8.9 in determining such packages and arrangements, give due regard to any relevant legal requirements, the provisions and recommendations in the

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<sup>11</sup> Some companies require the Remuneration Committee to consider the packages of all executives at or above a specified level such as those reporting to a main Board Director while others require the Committee to deal with all packages above a certain figure

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Combined Code and the Irish Stock Exchange Listing Rules and associated guidance

- 8.10 review and note annually the remuneration trends across the company or group
- 8.11 oversee any major changes in employee benefits structures throughout the company or group
- 8.12 agree the policy for authorising claims for expenses from the Chief Executive and Chairperson<sup>12</sup>
- 8.13 ensure that all provisions regarding disclosure of remuneration including pensions, as set out in the Combined Code, are fulfilled
- 8.14 be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the Terms of Reference for any remuneration consultants who advise the committee; and for obtaining reliable, up-to-date information about remuneration in other companies. The Committee shall have full authority to commission any reports or surveys that it deems necessary to help it fulfil its obligations

### 9 Reporting Responsibilities

- 9.1 The Committee Chairperson 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 make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed
- 9.3 The Committee shall produce an annual report of the company's remuneration policy and practices which will form part of the company's Annual Report and ensure each year that it is put to shareholders for approval at the AGM

### 10 Other

- 10.1 The Committee shall, at least once a year, review its own performance, constitution and Terms of Reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval

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<sup>12</sup> It is suggested that the more common arrangement is for the Chairperson of the Board to authorise the Chief Executive's expenses and for the Chairperson of the Remuneration Committee to authorise the Chairperson's claims. An alternative would be for the Committee to authorise the expenses of both

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### **11 Authority**

- 11.1 The Committee is authorised by the Board to seek any information it requires from any employee of the company in order to perform its duties
  
- 11.2 In connection with its duties the Committee is authorised by the Board to obtain, at the company's expense, any outside legal or other professional advice