

## **DIPLOMA PLC (the “Company”)**

### **TERMS OF REFERENCE FOR THE AUDIT COMMITTEE**

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The Board hereby resolves to establish a Committee of the Board to be known as the Audit Committee (the "Committee").

The Committee has the delegated authority of the Board in respect of the functions and powers set out in these terms of reference.

The Committee may sub-delegate any or all of its powers and authority as it thinks fit, including, without limitation, the establishment of sub-committees which are to report back to the Committee.

#### **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 Chair of the Committee. The Committee shall normally be made up of at least three members.
- 1.2 All members of the Committee shall be independent Non-Executive Directors at least one of whom shall have recent and relevant financial experience. The Committee as a whole shall have competence relevant to the sector in which the Company operates. The Chair of the Board shall not be a member of the Committee.
- 1.3 The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 1.4 Appointments to the Committee shall be for a period of up to three years which may be extended for up to two additional three-year periods, , provided the Non-Executive Directors remain independent in the view of the Board.
- 1.5 The Board shall appoint the Committee Chair who shall be an independent Non-Executive Director. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.
- 1.6 In deciding upon the chairpersonship and membership of the Committee, the value of ensuring that membership of the Committee is refreshed and that undue reliance is not placed on particular individuals shall be taken into account.

#### **2. Secretary**

- 2.1 The Group Company Secretary, or their nominee, shall act as the Secretary of the Committee. The Secretary shall endeavour to circulate information and papers in a timely manner to enable full consideration to be given to issues.

#### **3. Quorum**

- 3.1. 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

competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

**4. Meetings**

- 4.1 The Committee shall meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required.
- 4.2 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as Chair of the Board, Chief Executive, Group Finance Director, Chief Operating Officer, the external audit lead partner and director and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate.
- 4.3 Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Company’s governance, including the Chair of the Board, the Chief Executive, the Chief Financial Officer, the External Audit Lead Partner and the Head of Internal Audit.

**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 or invited to attend and all other Executive and Non-Executive Directors, no later than five 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 and any conflicts of interest.
- 6.2 Draft Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless, exceptionally, it would be inappropriate to do so.

**7. Annual General Meeting**

- 7.1 The Chair of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee’s activities. In addition the Chair of the Committee should seek engagement with shareholders on significant matters related to the Committee’s areas of responsibility.

## **8. Duties**

The Committee should have oversight of the group as a whole and, unless required otherwise by regulation, 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 half-yearly reports, any trading updates, preliminary results’ announcements and any other formal announcement relating to its financial performance, reviewing and reporting to the Board significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor.

8.1.2 The Committee shall review and challenge where necessary:

8.1.2.1 the application of, and any changes to, accounting policies;

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 disclosures in the Company’s financial reports and the context in which statements are made; and

8.1.2.5 all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and risk management;

8.1.3 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 Listing Rules, Prospectus Rules and 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 Where requested by the Board, the Committee shall 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 position and performance, business model and strategy and whether it informs the Board’s statement in the annual report on these matters that is required under the UK Corporate Governance Code (the “Code”).

### **8.3 Internal Controls and Risk Management Systems**

The Committee shall:

- 8.3.1 keep under review the adequacy and effectiveness of the Company’s material controls, including financial, operational and compliance controls and risk management systems; and
- 8.3.2 review and approve the statements to be included in the Annual Report concerning internal controls and risk management, including the assessment of principal risks and emerging risks, and the viability statement.

### **8.4 Compliance, whistleblowing and fraud**

The Committee shall:

- 8.4.1 review the adequacy and security of the Company’s arrangements for its employees, contractors and external parties 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 economic sanctions and for the prevention of bribery and corruption and receive reports on non-compliance.

### **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 or removal of the Company’s external auditor. The Committee shall review the external auditor’s term of office and at least every ten years, ensure that the contract for external audit services is put out to tender. The Committee shall develop and oversee the selection process for new auditors in accordance with the applicable regulatory requirements 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 auditor including (but not limited to):
  - 8.5.2.1 approving their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - 8.5.2.2 approving their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 8.5.2.3 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 any threats to the

auditor’s independence and the safeguards applied to mitigate those threats, including the provision of any non-audit services;

- 8.5.2.4 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) which could adversely affect the auditor’s independence and objectivity;
- 8.5.2.5 agreeing with the Board a policy on the employment of former employees of the Company’s auditor, taking into account legal requirements and professional standards, then monitoring the implementation of this policy;
- 8.5.2.6 monitoring the auditor’s processes for maintaining independence, its compliance with relevant law, regulation, other professional requirements and standards, including guidance on the rotation of audit partner and staff;
- 8.5.2.7 assessing annually their qualifications, expertise and resources, and independence of the external auditor, and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
- 8.5.2.8 monitoring the level of fees paid by the Company to the external auditor compared to the overall fee income of the firm and partner and assess these in the content of relevant legal, professional and regulatory requirements, guidance and standards;
- 8.5.2.9 seek to ensure coordination of the external audit with the activities of the internal audit function;
- 8.5.2.10 evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor’s communications with the Committee;
- 8.5.2.11 develop and recommend to the Board the Company’s formal policy on the provision of non-audit services by the auditor, including prior approval of the 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:
  - 8.5.2.11.1 threats to the independence and objectivity of the external auditor and any safeguards in place
  - 8.5.2.11.2 the nature of the non-audit services
  - 8.5.2.11.3 whether the external audit firm is the most suitable supplier of the non-audit service
  - 8.5.2.11.4 the fees for the non-audit services, both individually and in aggregate, relative to the audit fee

8.5.2.11.5 the criteria governing compensation

- 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 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;
- 8.5.5 review the findings of the audit with the external auditor. This shall include but not be limited to, the following;
  - 8.5.5.1 a discussion of any major issues which arose during the audit;
  - 8.5.5.2 the auditor’s explanation of how risks to audit quality were addressed;
  - 8.5.5.3 any key accounting and audit judgements;
  - 8.5.5.4 levels of errors identified during the audit; and
  - 8.5.5.5 the auditor’s view of their interactions with senior management.
- 8.5.6 review the effectiveness of the audit, 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;
- 8.5.7 review any representation letter(s) requested by the external auditor before they are signed by management; and
- 8.5.8 review the management letter and management’s response to the auditor’s findings and recommendations.

**8.6 Internal Controls**

The Committee shall:

- 8.6.1 keep under review the Company’s internal financial controls systems that identify, assess, manage and monitor financial risks;
- 8.6.2 review and approve the statements to be included in the annual report concerning financial internal controls.

**8.7 Internal Audit**

The Committee shall

- 8.7.1 approve the appointment or termination of appointment of the head of internal audit, who shall have a dotted reporting line to the Chair of the Committee;

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- 8.7.2 review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work, and annually review internal audit function ensuring it is effective and appropriate for the current needs of the organisation;
- 8.7.3 review and approve the annual internal audit plan to ensure it is aligned to the key risks of the business, and receive regular reports on work carried out;
- 8.7.4 ensure internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan, and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 8.7.5 ensure the internal auditor has direct access to the Chair of the Committee, providing independence from the executive and accountability to the Committee;
- 8.7.6 carry out an annual assessment of the role and effectiveness of the internal audit function (including within the overall context of the Company’s risk management system). As part of this assessment, the Committee should:
  - 8.7.6.1 meet with the head of internal audit without the presence of management to discuss the effectiveness of the function;
  - 8.7.6.2 review and assess the annual internal audit work place;
  - 8.7.6.3 receive a report on the results of the internal auditor’s work;
  - 8.7.6.4 determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and
  - 8.7.6.5 review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function.
- 8.7.7 consider whether an independent, third party review of processes is appropriate.

**9. Reporting Responsibilities**

- 9.1 The Committee Chair 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 compile a report to shareholders on its activities to be included in the Company’s Annual Report. This report shall summarise the role of the Committee, name Committee members, the frequency of, and attendance by members at, Committee meetings over the course of the year and describe the following in an appropriate and understandable way:

- 9.3.1 significant issues that the Committee considered in relation to the financial statements or otherwise, and how these were addressed;
  - 9.3.2 an explanation of how it assesses the independence and effectiveness of the external audit process;
  - 9.3.3 the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm and when a tender was last conducted and advanced notice of any retendering plans; and
  - 9.3.4 an explanation of how auditor objectivity and independence is safeguarded where the auditor provides non-audit services.
- 9.4 When compiling the reports referred to in 9.1 and 9.3, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board’s assessment of whether the Company is a going concern and the inputs to the Board’s viability statement. The report to shareholders need not repeat information disclosed elsewhere in the Annual Report but could provide cross-references to that information.

**10. Other**

- 10.1 The Committee shall:
- a. have access to sufficient resources in order to carry out its duties including access to the Company secretariat for assistance as required; and
  - b. 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.
- 10.2 In carrying out its duties, the Committee shall give due consideration to any relevant legal requirements, the provisions and recommendations in the Code and the UK FCA’s Listing Rules, Prospectus and Disclosure and Transparency Rules and associated guidance and any other applicable Rules, as appropriate.
- 10.3 The Committee shall oversee the investigation of any activities which are within its terms of reference and report its findings to the Board as appropriate.
- 10.4 The Committee shall arrange for periodic reviews of its own performance and, at least annually, of its 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.
- 10.5 The Committee will work and liaise as necessary with all other Board committees, ensuring interaction between committees and with the Board is reviewed regularly.

**11. Authority**

The Committee is authorised:



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- 11.1 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, to obtain, at the Company’s expense, outside legal or other professional advice on any matter within its terms of reference;
- 11.3 to call any employee to be questioned at a meeting of the Committee as and when required;
- 11.4 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. If the Board has not accepted the Committee’s recommendation on the external auditor appointment, reappointment or remove, the annual report should include a statement explaining the Committee’s recommendation and the reasons why the Board has taken a different position.

#### **12. Publication of the terms of reference**

- 12.1 These terms of reference shall be made available by publication on the Company’s website with an explanation of the Committee’s role and the authority delegated to it by the Board.

**By Order of the Board**

8 May 2024