

**Wolfson Microelectronics plc (“the Company”)
Audit Committee Terms of Reference
Approved by the Board on 20th December 2007**

	<p>In these Terms of Reference the following terms shall have the following meanings:</p> <p>the “Committee” shall mean the Audit Committee. the “Board” shall mean the Board of Directors of the Company.</p> <p>These Terms of Reference are for guidance and it should be open to the Committee, where practicality or necessity demands it to depart from such terms, always ensuring that the full Board of Directors is advised of such departures.</p>	
1.	Membership	
1.1	All members of the Committee shall be independent non-executive directors of the Company, as defined in provision A.3.1 of The Combined Code on Corporate Governance.	
1.2	The Committee shall consist of not less than three members. The Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Audit Committee and shall comprise of a Chairman and at least 2 other members. The Chairman of the Board shall not be a member of the Committee.	
1.3	The Board shall appoint the Committee Chairman. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of their number present to chair the meeting.	
1.4	At least one member of the Audit Committee, normally the Chairman, should have recent and relevant financial experience.	
1.5	Care should be taken to minimise the risk of any conflict of interest that might be seen to give rise to an unacceptable influence. The Committee Chairman shall not be the Chairman of both the Audit Committee and the Remuneration Committee without the Board’s written consent.	
1.6	Appointments to the Committee should 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.	
1.7	Members of the Committee shall be named in the Annual Report and Accounts of the Company.	
1.8	Only members of the Committee are entitled to vote at meetings of the Committee.	
1.9	Quorum The quorum necessary for the transaction of business shall be 2 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.	
1.10	Secretary The Company Secretary shall be the secretary of the Committee but can appoint the Corporate Compliance Manager as nominee to carry out the secretarial functions.	

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2	Meetings	
2.1	<i>Attendance at meetings</i>	
2.1.1	No one other than the Audit Committee members shall be entitled to attend Audit Committee meetings.	
2.1.2	The Committee may ask the Chairman of the Company, Chief Executive, Finance Director, a representative of the external auditors and/or the head of internal audit, and any relevant senior management to attend meetings either regularly or by invitation, but the invitees have no right of attendance.	
2.1.3	There should be at least one meeting a year, or part thereof, where the Audit Committee meets the external and internal auditors without executive board members present. This need not occur at the same meeting.	
2.2	<i>Frequency of meetings</i>	
2.2.1	Meetings shall be held not less than three times a year (to coincide with key dates in the Company’s financial reporting cycle).	
2.2.2	External auditors or internal auditors may request a meeting if they consider that one is necessary.	
2.3	<i>Notice of meetings</i>	
2.3.1	Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any member thereof or at the request of external or internal auditors if they consider necessary.	
2.3.2	Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed and relevant papers shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no fewer than 5 working days prior to the date of the meeting.	
2.4	<i>Minutes of meetings</i>	
2.4.1	The Secretary, or Corporate Compliance Manager on the Secretary’s behalf, shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.	
2.4.2	The Secretary or Corporate Compliance Manager should ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.	
2.4.3	Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to the Chairman and all members of the Board, unless a conflict of interest exists.	
2.5	<i>Annual General Meeting</i>	
	The Chairman 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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3.	Authority	
	The Committee is authorised by the board to:	
3.1	➤ investigate any activity within its terms of reference	
3.2	➤ seek any information that it requires from any employee of the Company in order to perform its duties and all employees are directed to cooperate with any request made by the Committee	
3.3	➤ call any member of staff to be questioned at a meeting of the Committee as and when required;	
3.4	➤ obtain, at the Company’s expense, outside legal or other professional advice on any matters within its terms of reference and secure the attendance at its meetings of outsiders with relevant experience and expertise if it considers this necessary; and	
3.5	➤ authorise or approve in retrospect the obtaining at the Company’s expense of independent legal or other professional advice by any Director on such terms as the Committee may think fit if a Director of the Company or any of its Subsidiaries indicates to the Committee that he requires, or has obtained, independent legal or other professional advice in relation to his duties.	
3.6	The Committee shall inform the Chief Executive Officer of the Company and the Chairman of the Board of any expenses of the kind referred to in 3.4 & 3.5 above which it has incurred or approved as soon as it is appropriate in the particular circumstances for the Committee to do so.	
4.	Duties	
	The Committee should carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.	
4.1	<i>Financial reporting</i>	
4.1.1	The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, interim management statements, preliminary results’ announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which 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.	
4.1.2	The Committee shall review, and challenge where necessary: ➤ the consistency of, and any changes to, accounting policies and practices, both on a year-to-year basis and across the Company or the group; ➤ decisions requiring a significant element of judgement; ➤ the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed; ➤ 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 disclosures in the Company’s financial reports and the context in which statements are made; and	

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	<ul style="list-style-type: none"> ➤ 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); <ul style="list-style-type: none"> - significant adjustments resulting from the audit; - the going concern assumption; - compliance with stock exchange and other legal requirements; ➤ to consider other topics, as defined by the Board. 	
4.1.3	The Committee shall review the annual financial statements of the pension funds where not reviewed by the Board as a whole.	
4.2	<i>Internal controls and risk management systems</i>	
	The Committee shall	
4.2.1	keep under review the effectiveness of the Company’s internal controls and risk management systems;	
4.2.2	review 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. (Note: The Board retains responsibility for the review of the effectiveness of the system of internal control and must form its own opinion. The Company’s management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Board that it has done so); and	
4.2.3	prior to endorsement by the Board, review the Company’s statement on internal control systems in the context of the Committee’s review of the policies and process for identifying and assessing business risks and the management of those risks by the Company.	
4.3	<i>Whistleblowing and fraud</i>	
	The Committee shall	
4.3.1	review the company’s arrangements for its employees to raise concerns, in confidence about possible improprieties in matters of financial reporting, financial control or any other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action; and,	
4.3.2	review the Company’s procedures for detecting fraud.	
4.4	<i>Internal audit</i>	
	The Committee shall	
4.3.1	consider annually whether there is a need for an internal audit function where no such function exists;	
4.3.2	consider and approve the terms of reference of the internal audit function, and shall be advised of the planned programme of audits and the reason for any change or delay in the programme;	

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4.3.3	review the management of financial matters and focus upon the freedom allowed to the internal auditors and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company.
4.3.4	receive a report on the results of the internal auditors’ work on a periodic basis. The Committee shall review promptly all reports on the Company from the internal auditors;
4.3.5	review and monitor management’s responsiveness to the internal auditor’s findings and recommendations;
4.3.6	monitor and assess the role and effectiveness of the internal audit function in the overall context of the Company’s risk management system;
4.3.7	consider applications for the post of and approve the appointment of the head of the internal audit function; any dismissal of the post holder should be considered and approved by the Committee;
4.3.8	meet the head of internal audit at least once a year, without management being present, to discuss their remit and any issues from internal audits carried out. In addition, the head of internal audit shall be given direct access to the Chairman of the Board and to the Committee.
4.4	<i>External audit</i>
4.4.1	<p>The Committee shall consider, and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, reappointment and removal of the Company’s external auditor as well as any questions relating to their resignation or removal. 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.</p> <p>The Committee shall ensure that key partners within the appointed firm are rotated from time to time.</p>
4.4.2	<p>oversee the Company’s relationship with the external auditor including (but not limited to):</p> <ul style="list-style-type: none"> ➤ approval of the terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit ➤ approval of the remuneration to be paid to the external auditor, in respect of audit or non-audit services, and that the level of fees is appropriate to enable and adequate audit to be conducted; ➤ assessing the qualification, expertise and resources, effectiveness and independence of the external auditors annually, which shall include a report from the external auditor on their own quality procedures. Steps to consider include: <ul style="list-style-type: none"> • seeking reassurance that the auditors and their staff have no family, financial, employment, investment or business relationship with the Company (other than in the normal course of business);

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	<ul style="list-style-type: none"> • seeking from the audit firm, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding the rotation of audit partners and staff; • monitoring the external audit firm’s compliance with applicable ethical guidance relating to the rotation of audit partners, the level of fees that the Company pays in proportion to the overall fee income of the firm, office and partner and other related regulatory requirements; • agreeing with the board and monitoring the Company’s policy for the employment of former employees of the external auditor; <p>➤ seeking to ensure co-ordination with the activities of the internal audit function</p>	
4.4.5	meet with the external auditors at least three times each year: once at the planning stage, where the scope of the audit and general approach with regard to the audit of areas of risk (including reliance on internal audit) will be considered, and once post audit at each of the interim and final reporting stages, and shall ensure that any auditors’ management letters and management’s responses are reviewed in relation to the Company or any other Subsidiary of the Company.	
4.4.6	discuss and agree with the external auditors all issues concerning such matters as compliance with accounting standards and any proposals which the external auditors have made vis-à-vis the Company’s internal auditing standards, as well as the results of the audit and any problems or reservations arising from the audit (in the absence of management where necessary);	
4.4.7	review with the external auditors, the findings of their work, including, any major issues that arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved; key accounting and audit judgements; levels of errors identified during the audit, obtaining explanations from management and, where necessary the external auditors, as to why certain errors might remain unadjusted;	
4.4.8	The Committee shall also review the effectiveness of the audit by: reviewing the audit representation letters before consideration by the board, giving particular consideration to matters that relate to non-standard issues;	
4.4.9	assessing, at the end of the audit cycle, the effectiveness of the audit process by: <ul style="list-style-type: none"> • reviewing whether the auditor has met the agreed audit plan and understanding the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks; • consideration of the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements identified and in responding to questions from the Audit Committee, and in their commentary, where appropriate, on the systems of internal control; • obtaining feedback about the conduct of the audit from the key people involved; 	
4.4.10	reviewing and monitoring the content of the external auditor’s management letter, in order to assess whether it is based on a good understanding of the Company’s business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon;	

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4.4.11	<p>develop and recommend to the board the Company’s policy in relation to the provision of non-audit services by the auditor and ensure the provision of such services does not impair the external auditor’s independence or objectivity. In doing so, the Audit Committee should:</p> <ul style="list-style-type: none"> • consider whether the skills and experience of the audit firm make it a suitable supplier of the non audit services; • take into account any relevant ethical guidance on the matter; • consider whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the external auditor; • consider the nature of the non-audit services, the related fee levels, and the fee levels individually and in aggregate relative to the audit fee; • consider the criteria that govern the compensation of the individuals performing the audit; and • set and apply a formal policy specifying the types of non-audit work: from which the external auditors are excluded; for which the external auditors can be engaged without referral to the Audit Committee; and for which a case-by-case decision is necessary.
5.	Reporting
5.1	The Secretary shall circulate the minutes of the Committee to all members of the Board. The Committee or its Chairman shall meet formally with the Board of Directors at least once a year to discuss such matters as the Annual Report and the relationship with the external auditors.
5.2	The Audit Committee shall annually review its terms of reference and its own effectiveness and recommend any necessary changes to the board.
5.3	In the light of its other duties, the Committee shall make whatever recommendations to the Board it deems appropriate.
5.4	The Audit Committee shall prepare a report on its role and responsibilities and the actions it has taken to discharge those responsibilities for inclusion in the annual report and accounts. Such a report should specifically include: <ul style="list-style-type: none"> • a summary of the role of the Audit Committee; • the names and qualifications of all members of the Committee during the period; • the number of Committee meetings and attendance by each member; and • the way the Committee has discharged its responsibilities.
5.5	Where disagreements between the Committee and the Board cannot be resolved, the Audit Committee shall report the issue to the shareholders as part of the report on its activities in the Company’s annual report.
5.6	If the Board does not accept the Audit Committee’s recommendation regarding the appointment, reappointment and removal of the external auditors, the Committee shall include a statement explaining its recommendation and reasons why the Board has taken a different stance in the annual report.
6	Other matters
6.1	The Committee shall give due consideration to laws and regulations, the provisions of the Combined Code and the requirements of the UK Listing Authority’s Listing, Prospectus and Disclosure and Transparency Rules as appropriate.

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6.2	The Committee shall facilitate co-ordination of the internal and external auditors.	
6.3	The Committee shall oversee the implementation of appropriate processes to assist with the directors’ obligations to ensure that the external auditors are aware of all relevant audit information.	
6.4	The Committee shall oversee any investigation of activities, which are within its terms of reference and act for internal purposes as a court of the last resort.	
6.5	The Committee should, on a regular basis, 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.	
6.6	The Committee shall have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required	
6.7	The Committee shall 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	
6.6	The Committee should consider such other matters as the Board may from time to time refer to it.	
7	Procedure Subject to the articles of association of the Company, the Committee shall determine its own procedures.	