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**ALLIED MINDS PLC**

**AUDIT COMMITTEE:  
TERMS OF REFERENCE**

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**ALLIED MINDS PLC**  
**("COMPANY")**

**AUDIT COMMITTEE: TERMS OF REFERENCE**

**1. DEFINITIONS**

In these terms of reference:

"**Board**" means the board of directors of the Company;

"**Committee**" means the audit committee of the Board; and

"**Group**" means the Company and its subsidiary undertakings from time to time.

**2. INTRODUCTION**

The primary purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities. In performing its duties, the Committee will maintain effective working relationships with the Board, the Company's management and the external auditors. To perform his or her role effectively, each member of the Committee must be familiar with these terms of reference as well as the Company's business operations and risks.

**3. MEMBERSHIP**

3.1 The Committee shall comprise at least three members. Membership shall include, where possible, one member of the remuneration committee. 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.

3.2 All members of the Committee shall be independent non-executive directors, at least one of whom shall have recent and relevant financial experience and with competence in accounting and/or auditing. The audit 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.

3.3 Only members of the Committee have the right to attend Committee meetings. However, the external auditor and finance director will be invited to attend meetings of the Committee on a regular basis and other non-members may be invited to attend all or any part of any meeting as and when appropriate and necessary.

3.4 Appointments to the Committee shall be for a period of up to three years, which may be extended by no more than two additional three year periods, so long as the member continues to be independent.

3.5 The Board shall appoint the Chair of the Committee. In the absence of the Chair of the Committee and/or an appointed deputy, the remaining members present shall elect one of their number to chair the meeting.

**4. SECRETARY**

The Company secretary or his nominee shall act as the secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

## **5. QUORUM**

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

## **6. FREQUENCY OF MEETINGS**

6.1 The Committee shall meet at least three times a year at appropriate times in the financial reporting and audit cycle and otherwise as required.

6.2 Outside of the formal meeting programme, the Chair of the Committee, and to a lesser extent the other committee members, will maintain a dialogue with key individuals involved in the Company's governance, including the Chair of the Board, the chief executive, the finance director, the external audit lead partner, and the head of internal audit (if any).

## **7. NOTICE OF MEETINGS**

7.1 Meetings of the Committee shall be called by the secretary of the Committee at the request of any of its members, or at the request of the external auditor if they consider it necessary.

7.2 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 two 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.

7.3 Notices, agendas and supporting papers can be sent in electronic form where the recipient has agreed to receive documents in such a way.

## **8. MINUTES OF MEETINGS**

8.1 The secretary of the Committee shall ensure that a formal record of the proceedings and decisions of all Committee meetings, including the names of those present and in attendance, is maintained.

8.2 The secretary of the Committee shall ascertain, at the beginning of each Committee meeting, the existence of any conflicts of interest and minute them accordingly.

8.3 Draft minutes of Committee meetings shall be agreed with the Chair of the Committee and then circulated to all members of the Committee, unless it would be inappropriate to do so in the opinion of the Chair of the Committee.

## **9. AGM**

The Chair of the Committee shall attend the annual general meeting ("**AGM**") to answer shareholder questions.

## **10. DUTIES**

The Committee should have oversight of the group as a whole and, unless required otherwise by regulation, shall carry out the duties below for the Company, major subsidiary undertakings and the Group as a whole, as appropriate.

### **10.1 Financial reporting**

10.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports and accounts, quarterly reports (if any), announcements of preliminary results and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor.

10.1.2 In particular, the Committee shall review and challenge where necessary:

10.1.2.1 the application of significant accounting policies and any changes to them;

10.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;

10.1.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

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

10.1.3 The Committee shall review any other statements requiring Board approval which contain financial information in circumstances 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 Financial Conduct Authority's Listing Rules and the Disclosure Guidance and Transparency Rules sourcebook.

10.1.4 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.

### **10.2 Narrative reporting**

Where requested by the Board, the Committee should 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 performance, business model and strategy and whether it supports the Board's statement in the annual report on these matters that is required under the UK Corporate Governance Code.

### **10.3 Internal controls and risk management systems**

The Committee shall:

- 10.3.1 keep under review the Company's internal financial control systems that identify, assess, manage and monitor financial risks and other internal control and risk management systems; and
- 10.3.2 review and approve the statements to be included in the Company's annual report concerning internal controls and risk management and the viability statement.

### **10.4 Compliance, whistleblowing and fraud**

The Committee shall:

- 10.4.1 review the adequacy and security of the Company's arrangements for its employees and contractors 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;
- 10.4.2 review the Company's procedures for detecting fraud;
- 10.4.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;
- 10.4.4 review regular reports from the Company's money laundering reporting officer and the adequacy and effectiveness of the Company's anti-money laundering systems and controls; and
- 10.4.5 review regular reports from the Company's compliance officer and keep under review the adequacy and effectiveness of the Company's compliance function.

### **10.5 Internal audit**

The Committee shall:

- 10.5.1 consider on an annual basis whether a separate internal function is required for the Company and make a recommendation to the Board accordingly.

### **10.6 External audit**

The Committee shall:

- 10.6.1 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;
- 10.6.2 develop and oversee the selection procedure for the appointment of the audit firm, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process;
- 10.6.3 if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;

- 10.6.4 oversee the relationship with the external auditor. In this context, the Committee shall:
- 10.6.4.1 approve their remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - 10.6.4.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- 10.6.5 assess annually the external auditor's independence and objectivity taking into account relevant UK law, regulation, ethical standards and other professional requirements and the group's 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 non-audit services;
- 10.6.6 satisfy itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- 10.6.7 agree with the Board a policy on the employment of former employees of the external auditor, taking into account ethical standards and legal requirements, and monitor the application of this policy;
- 10.6.8 monitor the auditor's process for maintaining independence, its compliance with relevant UK law, regulation, other professional requirements and ethical standards including the guidance on rotation of audit partner and staff;
- 10.6.9 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 the relevant legal, professional and regulatory requirements, guidance and ethical standards;
- 10.6.10 assess annually the qualifications, expertise and resources, and independence of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
- 10.6.11 seek to ensure co-ordination of the external audit with the activities of any internal audit function;
- 10.6.12 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;
- 10.6.13 develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the 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. The policy should include consideration of the following matters:
- 10.6.13.1 threats to the independence and objectivity of the external auditor and any safeguards in place;

- 10.6.13.2 the nature of the non-audit services;
  - 10.6.13.3 whether the external audit firm is the most suitable supplier of the non-audit service;
  - 10.6.13.4 the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
  - 10.6.13.5 the criteria governing compensation;
- 10.6.14 meet regularly with the external auditor, (including once at the planning stage before the audit and once after the audit at the reporting stage) and, at least once a year, meet with the external auditor without management being present, to discuss the auditor's remit and any issues arising from the audit;
  - 10.6.15 discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
  - 10.6.16 review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:
    - 10.6.16.1 a discussion of any major issues which arose during the audit;
    - 10.6.16.2 the auditor's explanation of how the risks to audit quality were addressed
    - 10.6.16.3 key accounting and audit judgements;
    - 10.6.16.4 the auditor's view of their interaction with senior management; and
    - 10.6.16.5 errors identified during the audit;
  - 10.6.17 review any representation letter(s) requested by the external auditor before they are signed by management;
  - 10.6.18 review the management letter and management's response to the auditor's findings and recommendations; and
  - 10.6.19 review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgments by the auditor, and the auditor's response to the questions from the Committee.

## **11. REPORTING RESPONSIBILITIES**

- 11.1 The Chair of the Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. The report shall include:



- 11.1.1 the significant issues that it considered in relation to the financial statements and how these were addressed;
  - 11.1.2 its assessment of the effectiveness of the external audit process, the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans; and
  - 11.1.3 any other issues on which the Board has requested the Committee's opinion.
- 11.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 11.3 The Committee shall compile a report on its activities to be included in the Company's annual report. The report should include an explanation of how the Committee has addressed the effectiveness of the external audit process, the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor, and all other information requirements set out in the UK Corporate Governance Code.
- 11.4 In compiling the reports referred to in paragraphs 11.1 and 11.3, 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 and accounts, but could provide cross references to that information.

## **12. OTHER MATTERS**

The Committee shall:

- 12.1 have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
- 12.2 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;
- 12.3 give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the Financial Conduct Authority's Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules, as appropriate;
- 12.4 be responsible for co-ordination of the internal (if any) and external auditors;
- 12.5 oversee any investigation of activities which are within its terms of reference;
- 12.6 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;
- 12.7 arrange for periodic reviews 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 considers necessary to the Board.; and

- 12.8 ensure that these terms of reference are made available by placing them on the Company's website.

### **12.9 General duties**

In carrying out his specific duties set out above, each member of the Committee should also consider his general duties as a director of the Company, including:

- 12.9.1 his duty to act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, having regard to all relevant factors;
- 12.9.2 his duty to exercise independent judgement;
- 12.9.3 his duty to exercise reasonable care, diligence and skill;
- 12.9.4 his duty to avoid conflicts of interest; and
- 12.9.5 his duty to act in accordance with the Company's constitution and only exercise his powers for the purposes for which they were conferred.

### **13. AUTHORITY**

The Committee is authorised to:

- 13.1 seek any information it requires from any employee of the Company in order to perform its duties;
- 13.2 obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes necessary to do so;
- 13.3 call any employee to be questioned at a meeting of the Committee as and when required; and
- 13.4 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.