

# Synectics plc

## Terms of Reference for the Audit Committee

(Approved by the Board on 17 February 2017)

### 1. Constitution

- 1.1. The Board established a Committee of the Board to be known as the Audit Committee, and has approved these terms of reference for the Committee.

### 2. Membership

- 2.1. The Committee shall consist of not less than two members all of whom shall be independent non-executive directors, and at least one of whom shall have recent and relevant financial experience.
- 2.2. The Committee as a whole shall have competence relevant to the sector in which the Company operates.
- 2.3. Members of the Committee shall be appointed by the Board.
- 2.4. Only members of the Committee have the right to attend Committee meetings. However, Executive Directors and the external auditor may be invited to attend Committee meetings on a regular basis and other members of the Board or senior management of the Group may be invited to attend all or any part of any Committee meetings as and when appropriate and necessary.
- 2.5. The Chairman of the Committee shall be appointed by the Board. In the absence of the Committee Chairman, the remaining members shall elect one of themselves to chair the meeting.
- 2.6. The Chairman of the Board can be a member of the Committee but cannot chair any meeting or be appointed Chairman.

### 3. Secretary

- 3.1. The Company Secretary, or his or her 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.

### 4. Quorum

- 4.1. A quorum for the purposes of a duly convened Committee meeting shall be two members.

### 5. Frequency of Meetings

- 5.1. The Committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycle, and otherwise as required.
- 5.2. The external auditor shall normally attend two meetings each year.
- 5.3. Outside of the formal meetings, the Committee Chairman shall maintain a dialogue with key individuals involved in the Company's corporate governance, including but not limited to the Chairman of the Board, Chief Executive, Finance Director, Company Secretary, Head of Finance and the external audit lead partner.

### 6. Notice of Meetings

- 6.1. Meetings of the Committee shall be convened by the Secretary of the Committee at the request of any of its members.
- 6.2. 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, usually 5 working days before the meeting.

## **7. Minutes of Meetings**

- 7.1. The Secretary shall minute the proceedings and decisions of all Committee meetings, including recording the names of those present and in attendance.
- 7.2. The Secretary shall circulate the minutes of Committee meetings to all members of the Board in a timely manner.

## **8. Annual General Meeting**

- 8.1. The Committee Chairman should attend the Annual General Meeting of the Company to answer shareholder questions on the Committee's activities.

## **9. Duties**

The Committee should carry out the duties below for the Company, major subsidiaries and the Group as a whole, as necessary or appropriate:

### **9.1. Financial Reporting**

9.1.1. The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, interim management statements, 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 external auditor.

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

- 9.1.2.1. the consistency of, and any changes to, significant accounting policies within the Group;
- 9.1.2.2. the methods used to account for significant or unusual transactions where different approaches are possible;
- 9.1.2.3. whether the company has followed appropriate accounting standards and made proper estimates and judgements, taking into account the external auditor's views;
- 9.1.2.4. the clarity and completeness of information presented within the financial reports and the context in which the statements are made; and
- 9.1.2.5. all material information presented with the financial statements, such as the business review and the corporate governance statements relating to the audit and risk management.

9.1.3. 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.

### **9.2. Narrative Reporting**

Where requested by the Board, the Committee should review the content of the annual report and accounts and advise the Board 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.

### **9.3. Internal Controls and Risk Management Systems**

The Committee shall:

- 9.3.1. keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems; and

9.3.2. review and approve the statements to be included in the annual report concerning internal controls and risk management.

#### **9.4. Compliance, whistleblowing and fraud**

The Committee shall:

9.4.1. review the adequacy and security of the Group's whistleblowing 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;

9.4.2. review the Company and Group's procedures for detecting fraud; and

9.4.3. review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

#### **9.5. Internal Audit**

The Committee shall:

9.5.1. review and approve the scope of the internal audit activities and resources;

9.5.2. review and assess the annual internal audit plan; and

9.5.3. periodically review the internal audit work carried out, and management's responsiveness to findings and recommendations.

#### **9.6. External Audit**

The Committee shall:

9.6.1. review and recommend to the Board the appointment, re-appointment or removal of the external auditor, to be put to shareholders for approval at the Annual General Meeting.

9.6.2. ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;

9.6.3. investigate and report to the Board where there is a resignation or dismissal of the external auditor.

9.6.4. oversee the relationship with the external auditor including (but not limited to)

9.6.4.1. recommendations on 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;

9.6.4.2. approving the terms of their engagement, including any engagement letter issued at the start of each external audit and the scope of the audit;

9.6.4.3. assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements, and the relationship with the external auditor as a whole, including the provision of any non-audit services;

- 9.6.4.4. satisfying itself that there are no relationships 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;
  - 9.6.4.5. agreeing with the Board a policy on the employment of former employees of the Company's external auditor, and monitoring the implementation of this policy;
  - 9.6.4.6. monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, level of fees paid by the Company compared to the overall fee income of the firm, and other related requirements; and
  - 9.6.4.7. assessing annually the qualifications, expertise and resources 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;
- 9.6.5. 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 without management present, to discuss the auditor's remit and any issues arising from the audit;
- 9.6.6. review and approve the annual external audit plan and ensure it is consistent with the scope of the audit engagement;
- 9.6.7. review the findings of the audit with the external auditor. This shall include but not be limited to:-
- 9.6.7.1. a discussion of any major issues which arose during the audit;
  - 9.6.7.2. key accounting and audit judgements;
  - 9.6.7.3. levels of errors identified; and
  - 9.6.7.4. the effectiveness of the audit process.

The Committee shall also:

- 9.6.8. review any representation letter(s) requested by the external auditor before they are signed by management;
- 9.6.9. review the management letter and management's response to the external auditor's findings and recommendations; and
- 9.6.10. develop, implement and monitor a policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence.

## **10. Reporting Responsibilities**

- 10.1. The Committee Chairman shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also report to the board on how it has discharged its responsibilities.
- 10.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.3. The Committee shall compile a report on its activities to be included in the Company's annual report, taking into account the content required to be disclosed by regulation, statute, accounting standards and corporate governance requirements.

## **11. Other Matters**

The Committee shall:

- 11.1. 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 Committee members;

- 11.2. give due consideration to laws and regulations, the provisions of the FRC's UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate;
- 11.3. oversee any investigation of activities which are within its terms of reference;
- 11.4. work and liaise as necessary with all other Board committees;
- 11.5. arrange for periodic reviews of the Committee's performance and, at least annually, review its constitution and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board; and
- 11.6. undertake other ad hoc duties or activities delegated by the Board from time to time.

## **12. Authority**

The Committee is authorised:

- 12.1. to seek any information or assistance it requires from any employee of the Group and all employees are directed to co-operate with any request made by the Committee; and
- 12.2. to obtain external legal or other independent professional advice, at the Company's expense, and to invite external parties to attend if it considers this necessary.