

# TERMS OF REFERENCE AUDIT COMMITTEE



 SIRIUM

# OSIRIUM TECHNOLOGIES PLC (THE COMPANY)

## AUDIT COMMITTEE: TERMS OF REFERENCE

### 1 CONSTITUTION

The Audit Committee (the Committee) was constituted at a full meeting of the board of directors of the Company (the Board) held on 2016 in accordance with the articles of association of the Company.

### 2 DUTIES AND TERMS OF REFERENCE

2.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half yearly reports, any interim management or trading 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.

2.2 The Committee shall review and challenge where necessary:

- (a) the consistency, quality and appropriateness of, and any changes to, accounting policies both on a year on year basis and across the Company and its subsidiaries (the Group);
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
- (c) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (d) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
- (e) all material information presented with the financial statements, such as the business review and any corporate governance statement (insofar as it relates to the audit and risk management).

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

2.4 If the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

2.5 Where requested by the Board, the Committee will 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.

2.6 The Committee shall:

- (a) keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems; and
- (b) review and approve the statements to be included in the annual report concerning internal controls and risk management.

2.7 The Committee shall:

- (a) 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;
- (b) review the Company's procedures for detecting fraud;
- (c) review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;

2.8 The Committee shall consider annually whether the Company's size and activities are such that an internal audit function should be established and, if so:

- (a) determine its remit and monitor and review the effectiveness in the context of the Company's overall risk management system;
- (b) ensure 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 the function has adequate standing and is free from management or other restrictions;
- (c) review and assess any annual internal audit plan;
- (d) review promptly any reports on the Company from the internal auditors;
- (e) review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
- (f) meet the head of internal audit (to the extent that one is appointed) 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, the head of internal audit shall be given the right of direct access to the Chairman of the Board and to the Committee.

2.9 The Committee shall:

- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, 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;
- (b) 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 oversee the selection process and further ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process;
- (c) oversee the relationship with the external auditor including (but not limited to):
  - (i) approval of 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;
  - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (iii) 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;
  - (iv) 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;
  - (v) agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
  - (vi) 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;
  - (vii) assessing annually their qualifications, expertise and resources of the auditor and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
  - (viii) seeking to ensure co-ordination with the activities of the internal audit function; and

- (ix) evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of the Company's present auditor from the market.
  - (d) 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;
  - (e) 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;
  - (f) review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
    - (i) a discussion of any major issues which arose during the audit;
    - (ii) any accounting and audit judgements;
    - (iii) levels of errors identified during the audit; and
    - (iv) the effectiveness of the audit;
  - (g) review any representation letter(s) requested by the external auditor before they are signed by management;
  - (h) review the management letter and management's response to the auditor's findings and recommendations;
  - (i) develop and implement a policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.
- 2.10 The Committee Chairman 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:
- (a) the significant issues that it had considered in relation to the financial statements and how these were addressed;
  - (b) the assessment of the effectiveness of the external audit process and its recommendations on the appointment/reappointment of the external auditor.
- 2.11 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 2.12 The Committee shall compile a report to shareholders on its activities to be included, and to the extent as directed by the Board, in the Company's annual report. The report shall 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.

**2.13** The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company secretary for assistance as required;
- (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;
- (c) give due consideration to applicable laws and regulations, the provisions of the UK Corporate Governance Code, the QCA Corporate Governance Code for Small and Mid-Size Quoted Companies 2013 and the requirements of the London Stock Exchange's rules for AIM companies as appropriate;
- (d) be responsible for co-ordination of the internal (if any) and external auditors;
- (e) oversee any investigation of activities which are within its terms of reference and act as a court of the last resort; and
- (f) 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.

**2.14** To consider such other matters as may be requested by the Board.

### **3** MEMBERSHIP

**3.1** The members of the Committee shall be appointed by the Board in consultation with the Chairman of the Committee. A majority of the members of the Committee should be independent non-executive directors.

**3.2** The Committee shall have at least two members and at least one member should have recent and relevant financial experience, ideally with a professional qualification from one of the professional accountancy bodies. Unless the Board otherwise resolves, the Chairman of the Board shall not be a member of the Committee.

**3.3** At the date of formation of the Committee, it has been agreed that the members of the Committee will be:

John Townsend

Simon Lee

Stephen Purdham

and the Committee shall be chaired by:

Simon Lee

- 3.4 A quorum shall be any two non-executive director members of the Committee. The members of the Committee can be varied at any time by a majority resolution of the existing members of the Committee save that the majority of the Committee must remain as independent non-executive directors.
- 3.5 Appointments to the Committee shall be for a period of up to three years, which may be extended by no more than two additional periods of up to three years, provided that a majority of the members continue to remain independent non-executive directors.
- 3.6 If any member of the Committee is deemed not to be independent, the Board shall provide an explanation as to why they consider it appropriate for such director to be a member of the Committee.
- 3.7 If in any circumstances in relation to any particular matter a conflict or potential conflict arises by reason of any member of the Committee not being deemed to be independent or otherwise (a Conflict Matter), the other Committee members may direct that such Conflict Matter shall be referred to the Board and shall not be resolved upon by the Committee, notwithstanding that the Committee member concerned does not vote on the Conflict Matter.

#### 4 VOTING ARRANGEMENTS

- 4.1 Each member of the Committee shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a meeting of the Committee.
- 4.2 If a matter that is considered by the Committee is one where a member of the Committee, either directly or indirectly has a personal interest, that member shall not be permitted to vote at the meeting.
- 4.3 Save where he has a personal interest or, where permitted to be a member of the Committee, is not deemed to be an independent director, the Chairman will have a casting vote.

#### 5 ATTENDANCE AT MEETINGS

- 5.1 The Committee will meet at least three times a year. The Committee may meet at other times during the year as agreed between the members of the Committee or as required.
- 5.2 Outside of the formal meeting programme, the Chairman will maintain a dialogue with key individuals involved in the Company's governance, including the chairman, chief executive, finance director, the external audit lead partner and head of internal audit.
- 5.3 Other directors may be invited to attend all or part of any meeting as and when appropriate.
- 5.4 The Company's external auditors may be required to attend Committee meetings, but not in the presence of any of the executive directors of the Company, with a view to consulting with the Committee.

5.5 The Company secretary or his or her nominee shall be 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 all issues.

5.6 Meetings of the Committee may be conducted when the members are physically present or by telephone, video or other electronic conference provided that each member can hear each participating Committee member.

## 6 NOTICE OF MEETINGS

6.1 Meetings of the Committee shall be called by the Company secretary at the request of any of its members or at the request of the external or internal auditors if they consider it necessary.

6.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of the matters to be discussed at the meeting shall be forwarded to each member and any other person required to attend no later than five working days before the date of the meeting. Any supporting papers shall be sent to each member of the Committee and to other attendees (as appropriate) at the same time.

## 7 AUTHORITY

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. The Committee is authorised by the Board to examine any activity within its terms of reference and is authorised to have unrestricted access to the Company's external auditors and to obtain, at the Company's expense, professional advice on any matter within its terms of reference. The Committee is authorised to seek any information it requires from any employee or director, and all such employees or directors will be directed to co-operate with any request made by the Committee.

## 8 REPORTING

The proceedings and resolutions of meetings of the Committee, including the names of those present and in attendance, shall be minuted. Draft minutes of each meeting will be circulated promptly to all members of the Committee. On finalisation and signature by the chairman, the minutes of each meeting will be submitted to the Board as a formal record of the decisions of the Committee on behalf of the Board unless a conflict of interest exists.

## 9 GENERAL MATTERS

9.1 Finalised minutes of the meetings of the Committee will be circulated to the members of the Board as part of the Board papers for each full meeting of the Board.

9.2 The chairman of the Committee should make himself available at each Annual General Meeting of the Company to answer questions concerning the Committee's work during the preceding year.

9.3 The recommendations of the Committee minutes must be approved by the Board before they can be implemented.



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