

SOFTCAT PLC

(the "Company")

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

Chairman:	Robyn Perriss
Members:	Vin Murria Peter Ventress
Attendees:	Martin Hellowell
Frequency of Meetings:	At least three meetings per annum in line with the Company's financial reporting timetable.

1. CONSTITUTION

The meetings and proceedings of the Audit Committee (the "**Committee**") are governed by the Terms of Reference set out below which were adopted by the board of directors (the "**Board**") on 6 October 2016.

2. OBJECTIVES

The primary objective of the Committee is to assist the Board in overseeing the systems of internal control and external financial reporting of the Company. It performs this role by ensuring that:

- (a) the external and internal audit arrangements are appropriate and effective;
- (b) the compliance arrangements are appropriate and effective;
- (c) fraud prevention and whistleblowing arrangements are established which minimise potential for fraud and financial impropriety; and
- (d) the annual report and accounts, related internal control disclosures and any other publically available financial information are reviewed and scrutinised.

3. MEMBERSHIP

3.1 The Committee shall comprise at least three members. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the chairman of the Committee (the "**Committee Chairman**").

3.2 All members of the Committee shall be independent non-executive directors. At least one member shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies. The chairman of the Board shall not be a member of the Committee but may be invited to attend meetings of the Committee as and when appropriate. The Committee as a whole shall have competence relevant to the sector in which the company operates.

3.3 Only members of the Committee have the right to attend Committee meetings. However, the external auditor, chief executive and chief financial officer will be invited to attend meetings of the Committee on a regular basis and the chairman of the Board and other non-members may be invited to attend all or 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, extendable by no more than two additional three year periods, so long as members continue to be independent.

3.5 The Board shall appoint the Committee Chairman who shall be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

4. **SECRETARY**

The Company secretary or his or her nominee shall act as the secretary of the Committee (the "**Committee Secretary**") 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**

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

5.2 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.

5.3 The Committee may hold meetings by telephone or using any other method of electronic communication whereby the participants are able to communicate effectively with each other, and may take decisions without a meeting by unanimous written consent, when deemed necessary or desirable by the Committee Chairman.

6. **FREQUENCY OF MEETINGS**

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

6.2 Outside of the formal meeting programme, the Committee Chairman will maintain a dialogue with key individuals involved in the Company's governance, including the Board chairman, the chief executive, the finance director, the external audit lead partner and the head of internal audit.

7. **NOTICE OF MEETINGS**

7.1 Meetings of the Committee shall be convened by the Committee Secretary at the request of any of its members or at the request of the external audit lead partner or head of internal audit 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 or invited to attend and all other non-executive directors, no later than five working days before the date of the meeting. Supporting papers shall, wherever practicable, be sent to Committee members and to other attendees as appropriate, at the same time.

7.3 Shorter notice and/or late submission or circulation of supporting papers will be permitted at the discretion of the Committee Chairman.

7.4 Supporting papers may be circulated electronically or in hard copy as circumstances permit.

8. **MINUTES OF MEETINGS**

8.1 The Committee Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance and, if applicable, the existence of any conflict of interest.

8.2 Draft minutes of Committee meetings shall be circulated promptly to all Committee members. Once approved, minutes should be circulated to all other members of the Board unless it would be inappropriate to do so in the opinion of the Committee Chairman.

9. **ANNUAL GENERAL MEETING**

The Committee chairman should attend the annual general meeting ("**AGM**") to answer shareholder questions on the Committee's activities.

10. **DUTIES**

The Committee should carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

10.1 **Financial reporting**

- (a) The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports 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 the matters communicated to it by the Company's external auditor.
- (b) In particular, the Committee shall review and challenge where necessary:
 - (i) all significant financial reporting issues and accounting judgements made;
 - (ii) the consistency of, and any changes to, significant accounting policies both on a year on year basis and across the Company;
 - (iii) the methods used to account for significant or unusual transactions where different approaches are possible;
 - (iv) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - (v) the appropriateness of the going concern statement to be made by the Board;
 - (vi) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
 - (vii) all material information presented with the financial statements, such as the strategic report, operating and financial review and the corporate governance statements relating to the audit and to risk management.
- (c) The Committee shall, where applicable, review the annual financial statements of any defined benefit or final salary pension funds in respect of which the Company has liability where not reviewed by the Board as a whole.
- (d) 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**

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.

10.3 **Internal controls and risk management systems**

The Committee shall:

- (a) monitor and keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems;
- (b) review and approve the Board's statements to be included in the annual report concerning:
 - (i) internal controls and risk management;
 - (ii) its assessment of the principal risks facing the Company and how they are managed and mitigated; and
 - (iii) its assessment of the Company's prospects and its expectations as to the Company's viability;
- (c) review and approve the Board's statements to be included in the annual report and half-yearly report concerning the adoption of the going concern basis of accounting and the identification of any material uncertainties in the Company's ability to continue to do so;
- (d) review the policies and overall process for identifying and assessing business risks and managing their impact on the Company;
- (e) review regular assurance reports from management, internal audit, external audit and others on matters related to risk and control; and
- (f) review the timeliness of, and reports on, the effectiveness of corrective action taken by management.

10.4 **Compliance, whistleblowing and fraud**

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, its code of corporate conduct/business ethics and its policies for ensuring that the Company complies with relevant regulatory and legal requirements and to receive reports on non-compliance and consider appropriate action;
- (d) review the adequacy and effectiveness of the Company's anti-money laundering systems and controls and receive reports of any breaches or other areas of concern; and
- (e) consider and advise the Board regarding the steps which have been taken to secure compliance by the Company with the FCA rules.

10.5 **Internal audit**

The Committee shall:

- (a) monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- (b) approve the appointment or termination of appointment of the head of internal audit, or the relevant outsourcing partner if the Committee determines that the internal audit function should be outsourced;
- (c) review and approve the charter of the internal audit function and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate and is equipped to perform in accordance with appropriate professional standards for internal auditors. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- (d) ensure the internal auditor has direct access to the Board chairman and to the Committee Chairman and is accountable to the Committee;
- (e) review and assess the annual internal audit work plan;
- (f) receive a report on the results of the internal auditor's work on a periodic basis;
- (g) review and monitor management's responsiveness to the internal auditor's findings and recommendations; and
- (h) meet with the head of internal audit at least once a year, without the presence of management to discuss their remit and any issues arising from the internal audit reviews.

10.6 **External Audit**

The Committee shall:

- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- (b) ensure that the audit services contract is put out to tender at least as often as is required by applicable law, rules, regulations and best practice 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 tendering process;
- (c) if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (d) oversee the relationship with the external auditor including (but not limited to):
 - (i) 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;
 - (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 external auditor and the Company (other than in the ordinary course of business) which could adversely affect the external auditor's independence and objectivity;
 - (v) authorising to the extent permitted by law and regulations, the external auditor to provide non-audit services to the Company before the commencement of the non-audit services;
 - (vi) 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;
 - (vii) monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
 - (viii) 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;
 - (ix) seeking to ensure co-ordination with the activities of the internal audit function; and
 - (x) 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 their external auditor from the market in that evaluation;
- (e) 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 being present, to discuss the auditor's remit and any issues arising from the audit;
 - (f) 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;
 - (g) review any analyst presentations to be made relating to the annual and half-yearly report; and
 - (h) review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
 - (i) discussion of any major issues which arose during the audit;
 - (ii) key accounting and audit judgements;
 - (iii) levels of errors identified during the audit;
 - (iv) the effectiveness of the audit process;
 - (v) the basis for the going concern assumption; and

- (vi) compliance with the relevant financial reporting standards and relevant financial and governance reporting requirements.

The Committee shall also:

- (a) review any representation letter(s) requested by the external auditor before they are signed by management;
- (b) review the management letter and management's response to the external auditor's findings and recommendations; and
- (c) develop, implement and keep under review a policy on the supply of non-audit services by the external auditor (including any non-audit services for which the use of the external auditor is pre-approved, from which the external auditor is excluded and for which the specific approval of the Committee is required) to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter and report to the Board, identifying any matters on which it considers action or improvement is needed and recommending what steps should be taken.

11. REPORTING RESPONSIBILITIES

11.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within the Committee's duties and responsibilities and shall also formally report to the Board on how the Committee has discharged its responsibilities. This report shall include:

- (a) the significant issues that it considered in relation to the financial statements (required under paragraph 10.1(a)) and how these were addressed;
- (b) its assessment of the effectiveness of the external audit process (required under paragraph 10.6(h)(iv)) and its recommendation on the appointment or reappointment of the external auditor; and
- (c) 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 to shareholders on its activities to be included in the Company's annual report, having regard to matters communicated to it by the auditor and all other information requirements set out in the UK Corporate Governance Code (the "**Code**"). The report should include:

- (a) an explanation of how the Committee has addressed the effectiveness of the external audit process;
- (b) the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;
- (c) the approach taken to the appointment or reappointment of the external auditor;
- (d) the length of tenure of the current external auditor and when a tender was last conducted and advance notice of any retendering plans;
- (e) if the external auditor provides non-audit services, how auditor objectivity and independence are safeguarded;

- (f) provide the information that the report is required to contain in relation to a financial year in which there has been no competitive tender process for the appointment of the external auditor; and
- (g) make any statement of compliance required by law or regulations.

11.4 In compiling the reports referred to in 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. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but should provide cross-references to that information.

12. **OTHER MATTERS**

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;
- (b) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;
- (c) give due consideration to laws and regulations, including the general duties of directors set out in the Companies Act 2006, the provisions of the Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate;
- (d) be responsible for co-ordination of the internal and external auditors;
- (e) oversee any investigation of activities which are within its Terms of Reference;
- (f) work and liaise as necessary with all other Board committees; and
- (g) 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 for approval.

13. **AUTHORITY**

The Committee is authorised to:

- (a) seek any information it requires from any employee of the Company, contractor, consultant or other provider of services to the Company (including legal and tax advisors) in order to perform its duties;
- (b) obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so within its Terms of Reference;
- (c) call any employee, contractor, consultant or other provider of services to be questioned at a meeting of the Committee as and when required; and
- (d) 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.