

**NCC GROUP PLC
("Company")**

**AUDIT COMMITTEE: TERMS OF REFERENCE
(approved 22 January 2019)**

1. Definitions

In these terms of reference:

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

"Code" means UK Corporate Governance Code;

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

"Ethical Standard" means the FRC Ethical Standard published June 2016.

2. Membership

2.1 Members of the Committee shall be appointed by the Board on the recommendation of the nomination committee and in consultation with the chairman of the Committee. The Committee shall be made up of at least three members.

2.2 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 chairman of the Board shall not be a member of the Committee. The committee as a whole shall have competence relevant to the sector in which the company operates.

2.3 Only members of the Committee have the right to attend Committee meetings. However, other individuals (such as the chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, other directors and representatives from the finance function of the Company) may be invited to attend for all or part of any meeting, as and when appropriate and necessary.

2.4 The external auditors of the Company shall be invited to attend meetings of the Committee on a regular basis.

2.5 Appointments to the Committee shall be for a period of up to three years, which may be extended by no more than two additional further three-year periods provided that the relevant Committee member still meets the criteria for membership of the Committee.

2.6 The Board on the recommendation of the nomination committee, shall appoint the chairman of the Committee, who shall be an independent non-executive director of the Company. In the absence of the chairman of the Committee and/or an appointed deputy, the remaining members present shall elect one of their number to chair the meeting.

3. Secretary

The Company Secretary or his/her nominee shall act as the secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner.

4. Quorum

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

- 5.1 The Committee shall meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required.
- 5.2 Outside of the formal meeting programme, the chairman 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 Board chairman, the Chief Executive Officer, the Chief Financial Officer and the external audit lead partner.

6. Notice of meetings

- 6.1 Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members, or at the request of the external auditor or internal audit function 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 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 five working days before the date of the meeting (where reasonably practicable). Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time.

7. Minutes of meetings

- 7.1 The secretary of the Committee shall minute the proceedings and decisions of all Committee meetings, including recording the names of those present and in attendance.
- 7.2 Draft minutes of Committee meetings shall be agreed with the Committee chairman and then circulated promptly to all members of the Committee.

8. AGM

The chairman of the Committee shall attend the AGM prepared to respond to any shareholder questions on the Committee's activities.

9. Duties

The Committee shall carry out the duties below for the Company, major subsidiary undertakings and the group as a whole, as 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 interim reports and accounts, interim management statements, announcements of preliminary results and any other formal announcement relating to its financial performance, review and report to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor.
- 9.1.2 The Committee shall review and challenge where necessary:
- the consistency of, and any changes to, accounting policies, both on a year-on-year basis and across the group;
 - the methods used to account for significant or unusual transactions where different approaches are possible;

- 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 disclosure in the Company's financial reports and the context in which statements are made; and
- all material information presented with the financial statements, including the strategic report and any corporate governance statement (insofar as it relates to the audit and risk management).

9.1.3 The Committee shall review any other statements requiring board approval which contain financial information first, 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 Listing Rules or Disclosure Guidance and Transparency Rules sourcebook.

9.1.4 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

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 on whether, taken as a whole, it is fair balanced and understandable and provides the necessary information for shareholders to assess the Company's position and performance, business model and strategy.

9.3 **Systems of internal controls and risk management**

The Committee shall:

- 9.3.1 keep under review the adequacy and effectiveness of the Company's internal financial control systems and internal control and risk management systems (of all risks other than those mandated to the Cyber Security Committee); and
- 9.3.2 review and approve any statements to be included in the Company's annual report and accounts concerning internal controls and the viability statement;
- 9.3.3 monitor and approve the Company's risk management procedures to ensure they are appropriate and operating effectively. Report to the Board on areas of risk which the Committee considers need further consideration or discussion;
- 9.3.4 receive regular reports from the Director of Risk and Compliance on the status of risk profiles and aligned risk mitigation plans;
- 9.3.5 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 the Company's arrangements to deal with such concerns allow proportionate and independent investigation of such matters and appropriate follow-up action;
- 9.3.6 review the Company's procedures for detecting fraud;
- 9.3.7 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

9.4 Internal audit

In relation to the Company's internal audit function the Committee shall:

- 9.4.1 review the effectiveness of the internal audit function;
- 9.4.2 approve the appointment and removal of the head of internal audit;
- 9.4.3 receive regular reports from the internal audit function on the status of actions;
- 9.4.4 agree the annual internal audit plan.

9.5 External audit

The Committee shall:

- 9.5.1 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. The Committee shall develop and oversee the selection process for a new auditor, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process and, if an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required;
- 9.5.2 oversee the relationship with the external auditor, including (but not limited to):
 - recommendations on 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;
 - approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- 9.5.3 assessing annually their independence and objectivity taking into account relevant UK law, the Ethical Standard, relevant professional and regulatory requirements and the group's relationship with the external auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services;
- 9.5.4 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 auditor's independence and objectivity;
- 9.5.5 agreeing with the Board a policy on the employment of former employees of the external auditor, taking into account the Ethical Standard and legal requirements and then monitoring the implementation of this policy;
- 9.5.6 monitoring the external auditor's processes for maintaining independence, its compliance with UK law, regulation, other professional requirements and the Ethical Standard, including the guidance on the rotation of audit partner and staff
- 9.5.7 assessing annually the qualifications, expertise and resources and independence 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;

- 9.5.8 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 relevant legal, professional and regulatory requirements guidance and the Ethical Standard;
- 9.5.9 evaluate the risks to quality and the effectiveness of the financial reporting process in light of the external auditor's communications with the Committee;
- 9.5.10 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 services to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements.
- 9.5.11 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 the executive management being present, to discuss their remit and any issues arising from the audit;
- 9.5.12 discuss with the external auditor the factors that could affect audit quality and review and approve the annual external 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;
- 9.5.13 review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:
- a discussion of any major issues which arose during the audit;
 - the auditor's explanation of how the risks to audit quality were addressed;
 - key accounting and audit judgements;
 - auditor's view of their interactions with senior management;
 - levels of errors identified during the audit; and
 - effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee.

The Committee shall also:

- 9.5.14 review any representation letter(s) requested by the external auditor before they are signed by the executive management;
- 9.5.15 review the executive management letter and executive management's response to the external auditor's findings and recommendations.

9.6 Other matters

The Committee shall:

- 9.6.1 have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for assistance as required;
- 9.6.2 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;
- 9.6.3 give due consideration to laws and regulations, the provisions of the Code and the requirements of the UK Listing Authority's Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules, as appropriate;
- 9.6.4 be responsible for co-ordination of the internal and external auditors; and
- 9.6.5 oversee any investigation of activities which are within its terms of reference and act as a court of last resort; and
- 9.6.6 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.

10. Reporting responsibilities

- 10.1 The chairman of the Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and report on how it has discharged its responsibilities. This report shall include:
 - 10.1.1 the significant issues that is considered in relation to the financial statements and how these were addressed;
 - 10.1.2 its assessments of the effectiveness of the external audit process, the approach taken to the appointment or reappointment of the external auditor, length of tenure of firm, when a tender was last conducted and advance notice of any retendering plans; and
 - 10.1.3 any other issues on which the Board has requested the Committee's opinion.
- 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 produce an annual report to shareholders on its activities, which will form part of the Company's annual report and accounts. 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 Code.

11. Self-appraisal

The Committee shall, 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.

12. Authority

The Committee is authorised by the Board:

- 12.1 to seek any information it requires from any employee of the Company in order to perform its duties;
- 12.2 to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference;
- 12.3 to call any employee to be questioned at a meeting of the Committee as and when required; and
- 12.4 to 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.