

## THE AUDIT COMMITTEE

### TERMS OF REFERENCE

#### 1. CONSTITUTION

- 1.1** The audit committee (**Committee**) is constituted as a committee of the board of directors (**board**) of PayPoint plc (**Company**) in accordance with the articles of association of the Company.
- 1.2** The Committee has the delegated authority of the board in respect of the functions and powers set out in these terms of reference.
- 1.3** The Committee may sub-delegate any or all of its powers and authority as it thinks fit, including, without limitation, the establishment of sub-committees which are to report back to the Committee.

#### 2. ROLE

The role of the Committee is to assist the board in fulfilling its oversight responsibilities by reviewing and monitoring:

- 2.1** The integrity of the financial and narrative statements and other financial information provided to shareholders.
- 2.2** The Company's system of internal controls and risk management.
- 2.3** The internal and external audit process and auditors.
- 2.4** The processes for compliance with laws, regulations and ethical codes of practice.

#### 3. DUTIES AND TERMS OF REFERENCE

The Committee shall have oversight of the Company and its subsidiaries (**Group**) as a whole and (unless required otherwise by regulation) carry out the following duties for the Group as appropriate:

##### 3.1 Financial reporting

The Committee shall:

- (a)** monitor and discuss with management the integrity of the financial statements of the Group, including:
- (i)** the annual and half-yearly reports;
  - (ii)** quarterly trading updates;
  - (iii)** preliminary results announcements; and
  - (iv)** any other formal statements relating to its financial performance;
- (b)** review and report to the board on significant financial reporting issues and judgements which the financial statements, interim reports, preliminary announcements and related formal statements contain having regard to matters communicated to it by the external auditor;
- (c)** review and challenge where necessary:
- (i)** the application and appropriateness of significant accounting policies, and any changes to them both on a year on year basis and across the Company and the Group;
  - (ii)** whether the Company has made appropriate estimates and judgements, taking into account

the external auditor's views.

(iii) the clarity and completeness of financial reporting disclosures and any changes to those disclosures, including the review of any correspondence between the Company and the external auditor;

(iv) the methods used to account for significant or unusual transactions (including any off balance sheet arrangements) where different approaches are possible;

(v) significant adjustments resulting from the external audit; and

(vi) the assumptions or qualifications in support of the going concern statement (including any material uncertainties as to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements) and the longer term viability statement (including an assessment of the prospects of the Group looking forward over an appropriate and justified period);

- (d) monitor compliance with financial reporting standards and any recognised investment exchange and other financial and governance reporting requirements;
- (e) review all material information presented with the financial statements, such as the strategic report and the corporate governance statements, insofar as it relates to audit and risk management;
- (f) review first any other statements that contain financial information and require board approval, if carrying out a review before 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; and
- (g) where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, report its views to the board.

### **3.2 Narrative reporting**

Where requested by the board, the Committee shall 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 informs the board's statement in the annual report on these matters that is required under Provision 25 of the UK Corporate Governance Code.

### **3.3 Risk management systems and internal controls**

The Committee shall:

#### **(a) Risk management**

(i) on behalf of the board (which retains overall responsibility for risk management), review and monitor the Company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems and carry out a review of their effectiveness, and review and approve the statement to be included in the annual report concerning internal risk management and the viability statement;

(ii) on behalf of the board, ensure that a robust assessment of the emerging and principal risks facing the Company has been undertaken (including those risks that would threaten the Company's business model, future performance, solvency or liquidity and reputation), that procedures are in place to identify emerging risks and provide advice on the management and mitigation of those risks;

**(b) Internal controls**

review the Company's internal financial controls and internal control systems and carry out a review of its effectiveness and approve the statement to be included in the annual report concerning internal control;

**(c) On-going viability**

provide advice to the board on how, taking into account the Company's position and principal risks, the Company's prospects have been assessed, over what period and why the period is regarded as appropriate. The Committee shall also advise on whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary;

**(d) Management and internal and external audit reports**

**(i)** review the assurance reports from management on the effectiveness of the internal control and risk management systems and from the internal audit, the external auditor and others on the operational effectiveness of matters related to risk and control. The Committee should satisfy itself that these sources of assurance and information are sufficient and objective and are enough to enable the board to satisfy itself that they are operating effectively;

**(ii)** review the timeliness of, and reports on, the effectiveness of corrective action taken by management in response to any material external or internal audit recommendation; and

**(e) Disclosures**

**(i)** consider any necessary disclosure implications of the process that has been applied by the board to deal with material internal control aspects of any significant problems disclosed in the annual report and accounts; and

**(ii)** consider the major findings of any relevant internal investigations into risk and control weaknesses, fraud, or misconduct and management's response, and also consider whether any such failings or weaknesses are significant and therefore require disclosure, the basis and accuracy of explanations given as to what actions are being taken to address them, and whether the level of disclosure of such actions is appropriate;

**3.4 Internal audit**

**(a)** approve the appointment and removal of the head of the internal audit function;

**(b)** review and approve the role and mandate of the internal audit function and monitor and review the effectiveness of its work and annually approve the internal audit charter ensuring that it is appropriate for the Company's current needs;

**(c)** review and approve the annual internal audit plan to ensure it is aligned to business's key risks and receive regular reports on work carried out;

**(d)** ensure that the internal audit function has unrestricted scope, necessary resources and appropriate access to information to enable it to perform its function effectively and in accordance with appropriate professional standards for internal auditors. The Committee shall also ensure that the function has adequate standing and is free from management or other restrictions;

**(e)** ensure the internal audit function has direct access to the board chair and to the Committee; and is accountable to the Committee;

**(f)** review and assess the annual internal audit plan and be advised of the reasons for any change or delay in the plan and ensure co-ordination between the internal and external auditors;

- (g) receive a report on the results of the internal auditor's work on a periodic basis;
- (h) determine whether it is satisfied that the quality, experience and expertise of internal audit are appropriate for the business;
- (i) review and monitor management's responsiveness to the internal auditors' findings and recommendations and management's actions to support the effective working of the internal audit function;
- (j) monitor and review the role and effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- (k) ensure that there is open communication between the different functions and that the internal function evaluates the effectiveness of risk, compliance and finance functions as part of its internal audit plan;
- (l) ensure that the Committee meets with the head of internal audit to discuss effectiveness of the internal audit function, without management present, at least once per year; and
- (m) consider whether an independent, third party review of internal audit effectiveness and processes is required.

### 3.5 External audit

The Committee shall, taking into account any applicable law and legislation, other professional requirements and the Financial Reporting Standard's Revised Ethical Standard 2016 (Ethical Standard):

#### (a) Appointment, reappointment and resignation

(i) consider and make recommendations to the board, to be put to shareholders for approval at the Company's AGM, on the appointment, reappointment or removal of the Company's external auditor;

(ii) 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, conduct such tender process and develop and oversee the selection process, ensuring that all tendering firms have such access as is necessary to information and individuals during the tendering process; and

(iii) if any external auditor resigns, investigate the issues leading to this and decide whether any action is required;

#### (b) Terms of engagement

oversee the relationship with the external auditor and negotiate and agree their terms of engagement, including any engagement letter issued at the start of each audit, the scope of the audit and, in consultation with the executive directors, agree and approve their remuneration (including fees for both the audit and non-audit services) to ensure that the level of fees is appropriate to enable an effective and high quality audit to be undertaken;

#### (c) Independence and expertise

(i) review and assess on an annual basis:

(A) the external auditor's independence and objectivity taking into account the relevant UK law, the Ethical Standard and other professional and regulatory requirements and the relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards to mitigate those threats including the provision of any non-audit services; and

(B) the qualifications, expertise and resources of the external auditor and, taking into account relevant UK professional and regulatory requirements, the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;

(ii) seek reassurance from the external auditor and their staff and satisfy itself that they have no relationships with the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;

(iii) at least annually, seek information from the external audit firm about, and monitor, the external audit firm's policies and processes for maintaining independence and its compliance with the relevant UK law, regulation and other professional requirements and the Ethical Standard, including guidance on the rotation of the audit partner and staff;

(iv) agree with the board the Company's policy on employment of former employees of the Company's external auditor, taking into account the Ethical Standard and legal requirements and monitor the application of this policy;

**(d) Fees of external auditor**

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 legal, professional and regulatory requirements, guidance and the Ethical Standard;

**(e) Non-audit services**

(i) develop and recommend to the board, and implement, the Company's formal policy on the external auditor's provision of non-audit services, including the Committee's approval of non-audit services and 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.

(ii) ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity, satisfying itself that there are no relationships between the auditor and the Company outside the ordinary course of business (including the level of non-audit fees) that could adversely affect the auditor's independence and objectivity, or the audit process; and

(iii) keep the policy for the provision of non-audit services under review;

**(f) Audit cycle**

(i) review and approve the annual audit plan at the start of the audit cycle and ensure it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;

(ii) 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 the executive directors or management being present, to review and discuss the auditor's remit and the findings of the audit including (but not limited to) any major resolved or unresolved issues that arose during the audit, the auditor's explanation of how risks to audit quality were addressed, key accounting and audit judgements, the auditor's view of their interactions with senior management and levels of errors identified during the audit and levels of errors identified during the audit;

(iii) consider communications from the external auditor on audit planning and findings on material weaknesses in accounting and internal control systems that come to the auditor's attention, including a review of material items of correspondence between the Company and the external auditor;

(iv) Review any representation letter(s) requested by the external auditor before they are signed by management and consider whether, based on its knowledge, the information provided is

complete and appropriate.

(v) review, before its consideration by the board, the external auditor's report to the directors and their management letter, including management's response to the auditor's findings and recommendations;

(vi) at the end of the audit cycle, assess the effectiveness of the audit process including:

(A) reviewing whether the auditor has met the agreed audit plan and whether the external auditor identified any risks to audit quality and, if so, how these were addressed;

(B) understanding reasons for changes to the audit plan;

(C) considering the external auditor's robustness and perceptiveness in handling key accounting and audit judgements and responding to the Committee's questions;

(D) obtaining feedback from key people on the conduct of the audit; and

(E) reviewing and monitoring the content of the external auditor's management letter and reporting to the board on the effectiveness of the audit process;

**(g) Other matters**

Be responsible for the co-ordination between the activities of the external auditor and the internal audit function;

**3.6 Cyber Security and Information Technology sub-committee**

Oversee the work of the Cyber Security and Information Technology sub-committee which the Committee has established and to which it has sub-delegated responsibility for cyber security and information technology matters pertaining to the Company and its subsidiaries. Oversight of the work of the Cyber Security and Information Technology sub-committee would include review of reports produced by and meeting minutes of the sub-committee.

**3.7 Whistleblowing**

The Committee shall review the adequacy and security of the Company's arrangements for its workforce to raise concerns, in confidence and anonymously, 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.

**3.8 Fraud**

The Committee shall annually review the Company's procedures for detecting fraud.

**3.9 Compliance**

The Committee shall review regular reports from the risk and compliance officer and keep under review the adequacy and effectiveness of the Company's compliance function.

**4. MEMBERSHIP**

**4.1** The Committee shall comprise a minimum of three members and the audit committee as a whole shall have competence relevant to the section in which the Company operates.

**4.2** Each Committee member shall be an independent non-executive director as determined by the board (in accordance with the principles of the UK Corporate Governance Code), at least one of whom shall have recent and relevant experience working with financial and accounting matters. If any member of the

Committee is deemed not to be independent, then the board shall provide an explanation as to why they consider it appropriate for such director to be a member of the Committee.

- 4.3 The board shall appoint members of the Committee, on the recommendation of the Nomination Committee, in consultation with the Committee chair.
- 4.4 The chair of the board shall not be a Committee member unless exceptional circumstances apply such as when there is a vacancy among the non-executive directors, but may be invited to attend its meetings. The chair of the board shall not chair the Committee.
- 4.5 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.
- 4.6 The board shall appoint the chair of the Committee. In the absence of the Committee chair and/or an appointed deputy, the remaining members present at a Committee meeting shall elect one of their number present to chair the meeting.
- 4.7 The Committee chair shall review membership of the Committee annually, as part of the annual performance evaluation of the Committee.
- 4.8 The company secretary, or his or her nominee, shall act as the secretary of the Committee and provide all necessary support to the Committee, including the recording of Committee minutes and ensuring that the Committee receives information and papers in a timely manner to enable full and proper consideration of the relevant issues.

## **5. ATTENDANCE AT MEETINGS**

- 5.1 The Committee shall meet at least three times a year at appropriate times in the Company's financial reporting and audit cycle.
- 5.2 Outside of the formal meeting programme, the Committee chair shall maintain a dialogue with key individuals involved in the Company's governance, including the board chair, the chief executive, the finance director, the external audit lead partner and the internal audit partner.
- 5.3 Only Committee members have the right to attend and vote at Committee meetings. However, the finance director, head of risk and compliance, internal audit partner and external audit lead partner shall be invited to attend and address meetings of the Committee by invitation and other non-members may be invited to attend all or part of any meetings as and when appropriate and necessary and with the agreement of the Committee chair. The Committee chair shall have the discretion to decide who, other than the Committee members, shall attend and address Committee meetings.
- 5.4 The secretary of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 5.5 Meetings of the Committee may be conducted when the members are physically present together or in the form of either audio or video conference.

## **6. NOTICE OF MEETINGS**

- 6.1 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 finance director, external audit lead partner or head of internal audit.
- 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 and any other person required to attend, no later than five calendar 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, but Committee papers may be forwarded at shorter notice with the approval of the Committee chair.
- 6.3 The Committee may send notices, agendas and supporting papers in electronic form where the recipient

has agreed to receive documents in such a way.

## **7. QUORUM**

- 7.1** The quorum necessary for the transaction of business at a Committee meeting shall be two members (including, whenever possible, at least one member with recent and relevant financial experience), present in person or by audio or video conference. If there is difficulty in achieving a quorum, independent non-executive directors, who are not members of the Committee, may be co-opted as members for individual meetings.
- 7.2** A duly convened Committee meeting 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.

## **8. MINUTES OF MEETINGS**

- 8.1** The secretary of the Committee shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 8.2** Draft minutes of Committee meetings shall be agreed with the Committee chair and then be circulated promptly to all Committee members, unless in the Committee chair's opinion it would be inappropriate to do so. Once approved, minutes shall be circulated to all other board members unless in Committee chair's opinion it would be inappropriate to do so.
- 8.3** A resolution in writing and signed or approved by letter or a form of electronic communication by all Committee members will be as effective as a resolution passed at a Committee meeting. Any written resolution shall be tabled and noted at the next meeting of the Committee.

## **9. ANNUAL GENERAL MEETING**

The Committee chair shall attend the annual general meeting to answer shareholder questions on the Committee's activities and shall make a statement on the Committee's activities and achievements over the year (including details on engagement with shareholders on significant matters)].

## **10. REPORTING RESPONSIBILITIES**

The Committee shall:

- 10.1** Report to the board on its proceedings after each meeting on all matters within its duties and responsibilities and the minutes of all Committee meetings shall be available on request.
- 10.2** Prepare a formal report on its activities and how the Committee has discharged its responsibilities to be included in the Company's annual report, which shall include:
- (a)** details of the membership of the Committee, number of meetings held and attendance over the course of the year;
  - (b)** a summary of the role and work of the Committee;
  - (c)** how the Committee's performance evaluation has been conducted;
  - (d)** 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 external auditor, the nature and extent of any interaction with the Financial Reporting Council's Corporate Reporting Review team and any significant findings of a review of the Company's audit conducted by the Financial Reporting Council's Audit Quality Review team;
  - (e)** confirmation that the board has carried out a robust assessment of the principal and emerging risks facing the Company, a description of its principal risks, the procedures in place to identify emerging risks and an explanation as to how they are being managed and mitigated;



- (f) an explanation of its assessment of the independence and effectiveness of the external audit process (including the provision of non-audit services and an explanation of how, if the auditors provide non-audit services to the Company and the Group, auditor objectivity and independence is safeguarded) and its approach taken to the appointment or reappointment of the external auditor, length of incumbent auditor's tenure, when a tender was last conducted, advance notice of any retendering plans (and reasons why completing the process in that proposed financial year is in the best interests of the Company's members) and any contractual provisions restricting the Committee's choice of auditor, and the amount of fees paid to the auditor for any of its services;
- (g) the Committee's policy for approval of non-audit services, how auditor objectivity and independence is safeguarded, the audit fees for the statutory audit for audit related services and other non-audit services, including the ratio of audit to non-audit work, and for each significant engagement, or category of engagements, what the services are and why the Committee concluded that it was in the Company's interests to purchase them from the external auditor;
- (h) an explanation of how the Committee has addressed the effectiveness of the internal audit process;
- (i) all other information requirements set out in the UK Corporate Governance Code; and
- (j) any other issues on which the board has requested the Committee's opinion.

**10.3** In compiling the report referred to in Paragraph 11.2, exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but include at least those matters that have informed the board's assessment of whether the Company is a going concern and the longer term viability statement.

**10.4** Make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.

**10.5** Make available to shareholders these terms of reference by placing them on the Company's website.

## **11. GENERAL MATTERS**

The Committee shall:

**11.1** Consider other duties determined by the board from time to time.

**11.2** Have access to sufficient resources to carry out its duties, including access to the company secretary for assistance, as required.

**11.3** Be provided with an induction programme for new members. Any ongoing committee or individual training requirement is to be discussed and agreed with the company secretary.

**11.4** Give due consideration to all applicable laws and regulations, in particular the directors duties contained in the Companies Act 2006, the provisions of the UK Corporate Governance Code and the requirements of the Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules published by the Financial Conduct Authority and any other applicable rules, as appropriate.

**11.5** Work and liaise as necessary with all other board committees, taking particular account of any delegation of the impact of risk management and internal controls to different committees.

**11.6** Arrange for periodic reviews of its own performance and, at least annually review its 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 board authorises the Committee to:

**12.1** Carry out all duties set out in these terms of reference, to have unrestricted access to the Company's

documents and information and to obtain, at the Company's expense, appropriate independent legal or professional advice on any matter within its terms of reference as it considers necessary.

- 12.2** Seek any information it requires from any employee of the Group to perform its duties.
- 12.3** Secure the attendance of external advisers at its meetings if it considers this necessary, at the Company's expense.
- 12.4** Call any employee of the Group to be questioned at a Committee meeting as and when required, and all such employees are directed to co-operate with any request made by the Committee.
- 12.5** Collectively and individually have direct access to the group finance director, the head of risk and compliance and the Company's external and internal auditors.

Adopted at the board meeting of the Company on 21 March 2019.

## **THE AUDIT COMMITTEE**

### **MEMBERS**

Giles Kerr (chairman)

Gill Barr

Rakesh Sharma

Ben Wishart