



# **AUDIT COMMITTEE TERMS OF REFERENCE**

# Audit Committee – Terms of Reference

## INTRODUCTION

This document details the terms of reference for the Audit Committee (the “**Committee**”) of Smart Metering Systems PLC (the “**Company**”), in accordance with the requirements of the UK Corporate Governance Code (the “**Code**”).

### 1. The UK Corporate Governance Code

- 1.1 The Company is led by a Board of Directors (the “**Board**”) which is responsible for the long-term success of the Company. Both the Board and its associated committees must be comprised of individuals who possess the requisite skills, experience, independence and knowledge to enable them to successfully discharge their respective duties and responsibilities to the Company and its shareholders.
- 1.2 Section C.3 of the Code states that “the board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company’s auditors” and that, in practical terms, this requires the Board to “establish an audit committee”.
- 1.3 Pursuant to section C.3.2 of the Code, the Committee must report to the Board on how it has discharged its duties and responsibilities. The Code recommends that the work of the Committee should be described in a separate section of the annual report.
- 1.4 The annual report should include a statement from the Committee explaining its recommendation in relation to the appointment, reappointment or removal of the external auditor, wherever the Board has not accepted that recommendation.
- 1.5 The Company is required, under the terms of the Code, to go both through a formal process of considering its internal audit and control procedures and evaluating its relationship with its external auditor and be seen to have done so in a fair and thorough manner. Therefore, it is essential that the Committee is properly constituted with a clear remit and identified authority and that it has processes in place to enable those directors serving on the Committee to perform their role.

### 2 Membership of the Committee

- 2.1 The Committee is comprised of:-
  - 2.1.1 Graeme Bissett (Chair);
  - 2.1.2 Jamie Richards (Non-Executive Director);
  - 2.1.3 Miriam Greenwood (Non-Executive Director); and
  - 2.1.4 Ruth Leak (Non-Executive Director).
- 2.2 The size of the Committee is considered to be sufficient in comparison to the size of the Company.
- 2.3 In accordance with the recommendations detailed in the Code, the majority of the members of the Committee are independent and whilst the Chair of the Board is a member of the Committee

as they are considered independent, they are not the Chair of the Committee. The Committee also comprises at least one member of the Remuneration Committee, in accordance with the recommendations of the Code.

- 2.4 All members of the Committee are independent Non-Executive Directors, at least one of whom have recent and relevant financial experience and with competence in accounting and/or auditing.
- 2.5 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Financial Officer, the Chief Executive, Head of Internal Audit and external audit lead partners may be invited by the Chair to attend for all or part of any meeting of the Committee, as and when appropriate and necessary.
- 2.6 Members of the Committee are appointed by the Board, on the recommendation of the Nomination Committee.
- 2.7 Appointments to the Committee are for a period of up to three years, which may be extended for further periods of up to three years, provided the Director still meets the criteria for membership of the Committee.

### **3 The Chair**

- 3.1 The Board shall appoint the Committee Chair who should be an independent Non-Executive Director. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting from those who would qualify under these terms of reference to be appointed to that position by the Board.
- 3.2 The Chair shall attend the annual general meeting to answer any shareholder questions on the Committee's activities.

### **4 The Secretary**

- 4.1 Whilst it is not a provision of the Code, it is good practice for the Company Secretary to act as Secretary of the Committee and this practice has been implemented by the Company.
- 4.2 The Committee has access to the services of the Secretary on all Committee matters, including:-
  - 4.2.1 assisting the Chair in planning the Committee's work;
  - 4.2.2 drawing up meeting agendas;
  - 4.2.3 maintenance of minutes;
  - 4.2.4 collection and distribution of information;
  - 4.2.5 provision of any necessary practical support; and
  - 4.2.6 ensuring that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.
- 4.3 The Secretary, or a nominee of the Secretary (with the approval of the Committee), shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 4.4 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board unless in the opinion of the Committee Chair it would be inappropriate to do so.

## 5 Quorum

The quorum necessary for the transaction of business shall be two, both of whom must be independent Non-Executive Directors.

## 6 Frequency of Meetings

- 6.1 Whilst the frequency with which the Committee needs to meet varies from time to time, at least three meetings are convened per year to review those items that form part of the regular cycle, such as reviewing the annual and interim results.
- 6.2 Outside of the regular cycle of meetings, the Chair shall maintain dialogue with key individuals involved in the Company's governance structure, including the Chair of the Board, the Chief Financial Officer, the Chief Executive, Head of Internal Audit and external audit lead partners.

## 7 Notice of Meetings

- 7.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of the Committee Chair.
- 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 to attend and all other Non-Executive Directors, no later than five working 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.

## 8 The Role of the Committee

- 8.1 The Committee should carry out the duties below for the Company and all of its subsidiaries.
- 8.2 The Committee shall:-

### **Financial Reporting**

- 8.2.1 monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports and any other formal statements relating to its financial performance, and review and report to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor;
- 8.2.2 review and challenge where necessary:-
  - (a) the application of significant accounting policies and any changes to them;
  - (b) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (c) whether the Company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements; and
  - (d) all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management.
- 8.2.3 review any other statements requiring Board approval which contain financial information provided that, to conduct such a review prior to the Board shall 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;

- 8.2.4 report its views to the Board where it is not satisfied with any aspect of the proposed financial reporting of the Company;

**Narrative Reporting**

- 8.2.5 where requested by the Board, 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 the Code;

**Internal Controls and Risk Management Systems**

- 8.2.6 keep under review the Company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems;
- 8.2.7 review and approve the statements to be included in the annual report concerning internal control, risk management and the viability statement;

**Compliance, Whistleblowing and Fraud**

- 8.2.8 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;
- 8.2.9 review the Company's procedures for detecting fraud;
- 8.2.10 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;
- 8.2.11 review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the Company's anti-money laundering systems and controls;
- 8.2.12 and review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Company's compliance function;

**Internal Audit**

- 8.2.13 approve the appointment or termination of appointment of the Head of Internal Audit;
- 8.2.14 review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work, and annually approve the internal audit charter seeking to ensure it is appropriate for the current needs of the organisation;
- 8.2.15 review and approve the annual internal audit plan to seek to ensure it is aligned to the key risks of the business, and receive regular reports on work carried out;
- 8.2.16 seek to ensure that internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan, and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;

- 8.2.17 seek to ensure the internal auditor has direct access to the Chair of the Board and to the Chair of the Committee;
- 8.2.18 carry out an annual assessment of the effectiveness of the internal audit function and as part of this assessment:
- (a) meet with the Head of Internal Audit without the presence of management to discuss the effectiveness of the function;
  - (b) review and assess the annual internal audit work plan;
  - (c) receive a report on the results of the internal auditor's work;
  - (d) determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and
  - (e) review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function;
- 8.2.19 monitor and assess the role and effectiveness of the internal audit function in the overall context of the Company's risk management system and the work of compliance, finance and the external auditor;
- 8.2.20 consider whether an independent, third party review of processes is appropriate;

#### **External Audit**

- 8.2.21 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;
- 8.2.22 develop and oversee the selection procedure for the appointment of the audit firm, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process;
- 8.2.23 if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 8.2.24 oversee the relationship with the external auditor. In this context the Committee shall:
- (a) approve their remuneration, including both fees for audit and non-audit services, and ensure that the level of fees is appropriate to enable an effective and high-quality audit to be conducted; and
  - (b) approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- 8.2.25 assess annually the external auditor's independence and objectivity taking into account relevant UK law, regulation, the Ethical Standard and other professional requirements and the Company's relationship with the 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;
- 8.2.26 satisfy itself that there are no relationships between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;

- 8.2.27 agree with the Board a policy on the employment of former employees of the Company's auditor, taking into account the Ethical Standard and legal requirements, and monitor the application of this policy;
- 8.2.28 monitor the auditor's processes for maintaining independence, its compliance with relevant UK law, regulation, other professional requirements and the Ethical Standard, including the guidance on the rotation of audit partner and staff;
- 8.2.29 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;
- 8.2.30 assess annually the qualifications, expertise and resources, and independence of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
- 8.2.31 seek to ensure coordination of the external audit with the activities of the internal audit function;
- 8.2.32 evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee;
- 8.2.33 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 service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:-
  - (a) threats to the independence and objectivity of the external auditor and any safeguards in place;
  - (b) the nature of the non-audit services;
  - (c) whether the external audit firm is the most suitable supplier of the non-audit service;
  - (d) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
  - (e) the criteria governing compensation;
- 8.2.34 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, meet with the external auditor without management being present, to discuss the auditor's remit and any issues arising from the audit;
- 8.2.35 discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- 8.2.36 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:-
  - (a) a discussion of any major issues which arose during the audit;
  - (b) the auditor's explanation of how the risks to audit quality were addressed;
  - (c) key accounting and audit judgements;

- (d) the auditor's view of their interactions with senior management; and
  - (e) levels of errors identified during the audit
- 8.2.37 review any representation letter(s) requested by the external auditor before they are signed by management;
- 8.2.38 review the 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.
- 8.3 The Chair of the Committee has overall responsibility to report to the Board on the Committee's proceedings after each meeting.
- 8.4 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 8.5 The Committee shall produce a report to be included in the Company's annual report about its activities and this shall include:-
  - 8.5.1 the significant issues that it considered in relation to the financial statements and how these were addressed;
  - 8.5.2 its assessment of the effectiveness of the external audit process, the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans; and
  - 8.5.3 any other issues on which the board has requested the Committee's opinion.
- 8.6 The Committee shall compile a report on its activities to be included in the Company's annual report. The report should include an explanation of:-
  - 8.6.1 how the Committee has addressed the effectiveness of the external audit process;
  - 8.6.2 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
  - 8.6.3 all other information requirements set out in the Code.
- 9 Other Matters**
- 9.1 The Committee shall:-
  - 9.1.1 have access to sufficient resources in order to carry out its duties, including access to the Secretary for assistance as required;
  - 9.1.2 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;
  - 9.1.3 give due consideration to laws and regulations, 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;
  - 9.1.4 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; and
  - 9.1.5 oversee any investigation of activities which are within its terms of reference.



## **10 Authorisation**

- 10.1 The Committee is authorised by the Board to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference.