

Audit & Risk Committee Terms of Reference

Adopted by the Board of Capita plc on 27 November 2018

Constitution

The Audit and Risk Committee (the "Committee") was established by a resolution of the Board passed on 28 March 1994.

Where they are not covered by these terms of reference, the proceedings of the Committee shall be governed by the appropriate provisions in the Company's articles of association.

Membership

The Committee members shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Audit and Risk Committee Chairman, from the independent Non-Executive Directors of the Company and any other relevant person as nominated by the Board and shall consist of not less than three members who must be independent Non-Executive Directors. A quorum shall be two members.

The Non-Executive Chairman, Chief Executive, Executive Board Directors, Group Risk & Compliance Director and Group Internal Audit Director, may attend by invitation.

The Board will appoint the Chairman of the Committee from amongst the independent Non- Executive Directors. In the absence of the Committee Chairman the remaining members present shall elect one of themselves to the chair the meeting.

At least one member of the Committee shall have recent and relevant financial experience and with competence in accounting and/or auditing. The Committee as a whole must have competence relevant to the sector in which the Company operates.

Attendance

The Committee shall meet at least four times per year. The meetings should be planned to take place immediately prior to the Financial Statements for the Half-Yearly and Final results being reported to the Board for approval and at any other time as the Chairman may direct. Further meetings may be called with the agreement of the Chairman, by any of the Group Risk and Compliance Director, Group Internal Audit Director, any Director or the external Auditors.

Only members of the Committee have the right to attend Committee meetings. Other individuals may be invited to participate at meetings regularly or from time to time. However, attendees should be limited to those who are familiar with or are responsible for the topics on the Agenda and will usually include the Chief Executive Officer, the Chief Financial Officer, the Group Risk & Compliance Director, the Group Internal Audit Director and the external Auditors.

Prior to each meeting, the Committee shall have the opportunity to meet privately with the external Auditors, Group Internal Audit Director and the Group Risk & Compliance Director.

Secretary

The Company Secretary or his or her nominee shall act as Secretary to the Committee. In conjunction with the Chairman they will prepare an Agenda for each meeting which shall be circulated in a timely manner to enable full and proper consideration to be given to issues to all members of the Committee and attendees, together with any supporting papers. All Directors should be given notice of the meeting and provided with a copy of the Agenda.

The Secretary to the Committee shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance. Draft minutes of Committee meetings shall be agreed with the Committee Chairman and then circulated promptly to all members of the Committee, unless it would be inappropriate to do so in the opinion of the Committee Chairman.

Role

The Audit and Risk Committee assists the Board in fulfilling its oversight responsibilities for Capita plc. Its primary functions are:

- to review the reporting of financial and other information to shareholders, the systems of internal control and risk management, and the audit process;
- to maintain an appropriate relationship with the Company's internal and external auditors and to review the effectiveness and objectivity of the audit process;
- to review, on behalf of the Board, the adequacy of the system of internal control taking input from internal audit, external audit, risk management including information security, disaster recovery and compliance functions;
- to review, on behalf of the Board, the business risk profile in areas covering but not restricted to Strategic, Operational, Financial and Compliance Risk; and
- to monitor the integrity of financial statements.

To perform their role effectively, each Committee member will obtain an understanding of the detailed responsibilities of the Committee, as well as the Company's business, operations and risk.

Authority

The Committee is authorised by the Board:

- to investigate any matter brought to its attention, within the scope of its duties;
- to obtain independent professional advice at the Company's expense as it considers necessary;
- to have the power to call on executive management and/or any member of staff to be questioned at a meeting of the Committee as and when is required.
- to seek any information it requires from any employee of the Company in order to perform its duties.

Responsibilities

The specific responsibilities of the Committee shall be:

Audit Process

- to provide an open avenue of communication between external auditors, the internal auditors and the Board;
- to keep under review the scope and results of both the internal and external audits and their cost effectiveness, and to report periodically to the Board of significant findings;
- to be responsible for co-ordination of the internal and external auditors; and
- to meet, as required, and at least once a year, with the external auditors, the internal auditors and management in separate executive sessions to discuss any matters that the Committee or these groups believe should be discussed privately with the Committee

External Auditors

- to oversee the process for selecting the external auditor, to consider their annual reappointment and any matters concerning their resignation or removal and to make appropriate recommendations through the Board to the shareholders to consider at the AGM in relation to these matters;
- if the external auditor resigns, to investigate the issues leading to this and decide whether any action is required;
- to 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 oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals for the duration of the tendering process;
- to approve their terms of engagement and scope of audit, including any engagement letter issued at the start of each audit;
- to assess the independence of the auditor annually, taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats, such threats to include the provision of any non-audit services;
- to satisfy itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- to monitor the auditor's processes for maintaining independence, its compliance with relevant UK law, regulation, other professional requirements and relevant FRC ethical standards, including the guidance on the rotation of audit partner and staff at appropriate intervals;
- to agree with the Board and monitor the application of a policy on the employment of former employees of the Company's auditor, including taking into account relevant ethical standards issued by the Financial Reporting Council and legal requirements;

- to review and recommend the audit fee to the Board and pre-approve any fees in respect of non-audit services provided by the external auditor, ensuring that the level of fees is appropriate to enable an effective and high-quality audit to be conducted;
- to monitor the level of fees paid by the Company to the 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 applicable FRC ethical standards;
- to assess annually the qualifications, expertise, resources and independence 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;
- to evaluate the risks to the quality and effectiveness of the financial reporting process (including the risk of the auditor's withdrawal from the market) in the light of the auditor's communications with the Committee;
- to seek to ensure coordination of the external audit with the activities of the internal audit function;
- to meet regularly with the external auditor and at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit;
- to develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter, such policy to include
 - approval of non-audit services by the Committee and the types of non-audit services to be pre-approved;
 - assessment of whether non-audit services have a direct or material effect on the audited financial statements;
 - assessment of threats to the independence and objectivity of the external auditor and any safeguards in place;
 - the nature of the non-audit services and whether the external audit firm is the most suitable supplier;
 - the fees for non-audit services, both individually and in aggregate, relative to the audit fee; and
 - assessment of the criteria governing compensation of the individuals performing the audit.
- to discuss with the external auditor the factors that could affect audit quality and understand, before the annual audit cycle commences, the nature, scope, timing and process of the audit and the specific steps taken to respond to changes in regulatory and other requirements;
- to 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;
- to review the results and effectiveness of the external audit and any significant findings reported to the Committee in the Management Letter, receiving updates from management on action taken and management's response to the auditor's findings and recommendations;
- to review any representation letter(s) requested by the external auditor before they are signed by management;
- to review the findings of the audit with the external auditor, including: a discussion of any major issues arising from the audit, the auditor's explanation of how the 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
- to review the effectiveness of the audit process at the end of the final and half-yearly audits, 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.

Internal Auditors

- to approve the appointment or termination of the appointment of the Group Internal Audit Director;
- The Chairman of the Committee will review and approve the objectives of the Group Internal Audit Director and will appraise his/her performance against those objectives. The Chairman will also review the salary of the Group Internal Audit Director;
- 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;
- ensure that the Group Internal Audit Director has direct access to the Board Chairman and to the Committee Chairman and is accountable to the Committee;
- review and assess the annual internal risk based audit work plan;
- to monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system including mitigation risk;
- to ensure that the internal audit function has appropriate standing in the Company and is free from any management restrictions and that valid concerns reported by the internal audit function are adequately addressed by management;
- to receive and review the internal auditor's reports on the significant issues from the internal audit plan, including the effectiveness of systems of internal financial control, financial reporting, fraud, illegal acts and other significant findings, business-wide risk assessment and mitigation processes and actions;
- to receive at least annually the results of internal and periodically external quality reviews performed across the Group Internal Audit function and determine whether the quality, experience and expertise of the internal audit function is appropriate for the Group;
- to review and monitor management's responsiveness to the findings and recommendations of the internal auditor and its support for the effective working of the internal audit function;
- to ensure that an independent review of internal audit effectiveness is performed at least every five years;
- to approve the appointment of an appropriately qualified third party to carry out the independent review of internal audit effectiveness; and
- to meet independently with the Group Internal Audit Director on an annual basis to discuss the effectiveness of the internal audit function.

Listing Compliance

- to oversee compliance with relevant statutory and regulatory requirements arising from the Listing Rules, Prospectus Rules, Disclosure Guidance and Transparency Rules and best practice recommendations (including the UK Corporate Governance Code), including compliance with the appropriate elements of the Group governance and control frameworks and relevant Group policies.

Internal Controls and Risk Management

- to ensure that a satisfactory framework is in place for identifying and managing risk within the business, including an adequate system of internal controls;
- to be aware of the Company's risk profile and ensure consistency with the Company's appetite for risk;
- to keep under regular review the steps taken by management to monitor, manage and mitigate risk;
- keep under review the effectiveness of the Company's internal controls and risk management systems; and
- prior to endorsement by the Board, to review the Company's statements to be included in the Annual Report on internal control systems, the viability statement and the process for identifying and assessing business risk and the management of those risks by the Company.

Compliance and Fraud

- Review the Company's procedures for detecting fraud;
- Review the Company's systems and controls for the prevention of bribery, corruption and criminal tax evasion and receive reports on non-compliance;
- Review the Company's (and its regulated subsidiaries) ongoing compliance with the requirements of its regulators; and
- Receive regular reports from the Group Risk & Compliance Director and keep under review the adequacy and effectiveness of the Company's Group Risk & Compliance function.

Financial

- To review, and challenge where necessary, the actions and judgments of management, in relation to the half-yearly and annual financial statements and any other formal announcement relating to the Group's financial performance, reviewing significant financial reporting issues and judgements which they contain before submission to the Board, with particular emphasis on:
- the consistency of, and any changes to, significant 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 and completeness of disclosure in the Company's financial reports and the context in which statements are made;
- all material information presented with the financial statements, such as the strategic report and the corporate governance statements relating to the audit and risk management;
- major judgmental decisions;
- the extent to which the financial statements are affected by any unusual transactions in the period and how they are disclosed;
- significant adjustments arising from the audit and items not adjusted;
- the continued applicability of the going concern assumption; and
- compliance with applicable accounting standards, regulatory and stock exchange requirements;

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.

Reporting responsibilities

- to include a statement in the Annual Report setting out the Committee's role, responsibilities and activities, including an explanation of how the Committee has addressed the effectiveness of the external audit process, the significant issues considered by the Committee relating to the financial statements and how these issues were addressed;
- to report on the Group's system of internal control and risk management, including by exception mitigation risk;
- to include an explanation in the Annual Report of the auditor's provision of non-audit services;

- 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 information necessary for shareholders to assess the company's performance, business model and strategy; and
- to include in reports to the Board and in the Annual Report those matters that have informed the Board's assessment of whether the Company is a going concern and the inputs to the Board's viability statement.

General

- to review and monitor compliance with any delegated authorities;
- to satisfy itself that members of management are taking appropriate action from the audit and other reports;
- to review and update its terms of reference annually, recommending any changes to the Board;
- to carry out an assessment of the Committee's performance not less than once a year;
- the Committee shall have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- the Committee shall 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;
- the Secretary shall keep appropriate records of all the meetings of the Committee with appropriate minutes of the proceedings and resolutions;
- to consider any other matters as referred to the Committee by the Board;
- to attend the Company's AGM;
- to receive and review any items escalated to the Committee from the Executive Risk Committee; and
- to receive and review the minutes of the Executive Risk Committee

Reporting Procedures

The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board, except where a conflict exists.

The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and on how it has discharged its responsibilities.

The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

The Committee's activities during the year shall be disclosed in the annual financial statements.

The Chairman of the Committee shall attend the AGM of shareholders, and shall answer questions, through the Chairman of the Board, on the Committee's activities and responsibilities.