

Capita plc – Group Audit & Risk Committee Terms of Reference

These Group Audit & Risk Committee Terms of Reference are approved as at 26 November 2020.

Objectives

The Group Audit & Risk Committee (the “Committee”) is a Committee of the Capita plc Board (“Board”).

The purpose of the Committee is to oversee financial reporting, internal controls and risk management systems, compliance and fraud prevention, internal and external audit.

Role of the Committee

1 Duties

1.1 The Committee should carry out the duties detailed below for the Company, major subsidiary undertakings and the group as a whole unless required otherwise by regulation, as appropriate. In carrying out these duties, the members of the Committee must comply with their duty under section 172 of the Companies Act 2006 to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, whilst having regard to the interests of employees, stakeholders and other matters as required by section 172.

1.2 Financial reporting

- (a) The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, preliminary announcements and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which those statements contain, having regard to matters communicated to it by the external auditor.
- (b) The Committee shall review and challenge where necessary:
 - (i) the application of significant accounting policies and changes to them;
 - (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
 - (iii) whether the Company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the views of the external auditor on the financial statements;

- (iv) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
 - (v) all material information presented with the financial statements, such as the strategic report and the corporate governance statement (insofar as it relates to the audit and risk management);
 - (vi) major judgemental decisions;
 - (vii) the extent to which the financial statements are affected by any unusual transactions and how such transactions are disclosed;
 - (viii) significant adjustments arising from the external audit and items not adjusted;
 - (ix) the continued applicability of the going concern assumption; and
 - (x) compliance with applicable accounting standards, regulatory and stock exchange requirements.
- (c) 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 FCA's Listing Rules or Disclosure Guidance and Transparency Rules sourcebook and the EU Market Abuse Regulation.
- (d) The Committee shall report its views to the Board if it is not satisfied with any aspect of the proposed financial reporting by the Company.
- (e) The Committee shall, if 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, so as to inform the Board's statement in the annual report on these matters as required by the UK Corporate Governance Code, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

1.3 Internal controls and risk management systems

The Committee shall:

- (a) keep under review and make recommendations to the Board in respect of the Company's risk profile, including the nature and extent of significant risks that the Company is willing to take in achieving its strategic objectives;
- (b) on behalf of the Board, carry out a robust assessment of the Company's principal and emerging risks;
- (c) keep under review the scope, adequacy and effectiveness of the Company's internal financial controls and internal control systems that identify, assess, manage and monitor financial risks, and other risk management systems, including financial, operational and compliance controls;

- (d) receive reports from the Company's management, the external and internal audit functions, and other central functions as appropriate, on the effectiveness and integrity of those systems;
- (e) review whether the principles of any guidance published by the Financial Reporting Council for directors on internal control requirements are being embedded within the group;
- (f) review the timeliness of, and reports on, the effectiveness of corrective action taken by the Company's management in respect of the Company's internal financial controls and internal control systems;
- (g) review the steps taken by management to monitor, manage and mitigate risk;
- (h) review and approve the statements to be included in the annual report concerning internal control, risk management and the Company's viability statement, prior to consideration by the Board; and
- (i) review the Company's code of conduct, ethics and related corporate responsibility policies and how these are communicated to employees and monitored.

1.4 Compliance and fraud

The Committee shall:

- (a) review the Company's procedures for detecting fraud;
- (b) review the Company's systems and controls for the prevention of bribery, corruption and criminal tax evasion, and receive reports on any alleged or suspected non-compliance;
- (c) review the Company's, and its regulated subsidiaries', ongoing compliance with the requirements of regulators or that compliance has been effectively delegated to each regulated subsidiary firm, and that the Committee provides appropriate oversight; and
- (d) review regular reports from the Director of Risk and Financial Services Compliance and the Group Risk & Internal Audit Director and keep under review the adequacy and effectiveness of the Company's Group Risk function.

1.5 Internal audit

The Committee shall:

- (a) approve the appointment or termination of appointment of the Group Risk & Internal Audit Director;
- (b) review and approve the role and mandate of the internal audit function and ensure it has unrestricted scope, 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;
- (c) ensure that the function:
 - (i) has adequate standing;
 - (ii) is free from management or other restrictions; and

- (iii) is accountable to the Committee;
- (d) ensure that the Group Risk & Internal Audit Director has direct access to the chair of the Board, where necessary, and to the chair of the Committee, providing independence from the executive and accountability to the Committee;
- (e) ensure that there is open communication between different functions and that internal audit evaluates the effectiveness of these functions as part of its internal audit plan;
- (f) approve the internal audit charter ensuring that it is appropriate for the current needs of the organisation;
- (g) review the work carried out by the internal audit function, and as part of this assessment:
 - (i) review and assess the annual internal audit work plan, ensuring that it is aligned to the key risks in the business;
 - (ii) receive a report on the results of the internal audit function's work on a periodic basis, including internal audit reports on significant issues arising from the internal audit annual plan;
 - (iii) review and monitor management's responsiveness to the findings and recommendations of the internal audit function, and management's support for the effective working of the internal audit function; and
 - (iv) meet with the Group Risk & Internal Audit Director at least once a year, without management being present, to discuss the effectiveness of the function; and
- (h) monitor and annually review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system and the work of compliance, finance and the external auditor and, as part of that assessment:
 - (i) determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and
 - (ii) consider whether an independent, third party review of the internal audit effectiveness and processes is appropriate and, in any event, ensure that an independent review is undertaken at least every five years by an appropriately qualified third party approved by the Committee.

1.6 External Audit

The Committee shall:

- (a) 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;
- (b) oversee the selection process for a new auditor and, if an auditor resigns, investigate the issues leading to this and decide whether any action is required;

- (c) ensure that the external audit services contract is put out to tender in accordance with applicable regulatory and legislative requirements, 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 the necessary access to information and individuals throughout the tendering process;
- (d) oversee the relationship with the external auditor including (but not limited to):
 - (i) approval of the external auditor's remuneration, including fees for audit, audit-related and non-audit services, and ensuring that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
 - (ii) approval of the external auditor's terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (iii) assessing annually the external auditor's independence and objectivity taking into account relevant law, regulation, ethical standards and other professional 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 including the provision of any audit-related or non-audit services;
 - (iv) satisfying 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;
 - (v) agreeing with the Board a policy on the employment of former employees of the Company's auditor, taking into account relevant ethical standards and legal requirements, and monitoring the implementation of this policy;
 - (vi) monitoring the auditor's processes for maintaining its independence, its compliance with relevant law, regulation, other professional requirements and ethical standards, including the guidance on the rotation of audit partner and staff;
 - (vii) monitoring 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 assessing these in the context of relevant legal, professional and regulatory requirements, guidance and ethical standards;
 - (viii) assessing annually the external auditor's independence, qualifications, expertise and resources and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
 - (ix) seeking to ensure co-ordination of the external audit with the activities of the internal audit function; and
 - (x) evaluating the risks to the quality and effectiveness of the financial reporting process in light of the external auditor's communications with the Committee;

- (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 external auditor's remit and any issues arising from the audit;
- (f) discuss with the external auditor the factors that could affect audit quality, including steps taken to respond to changes in legal and regulatory requirements, and 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 the findings of the audit with the external auditor. This shall include but not be limited to:
 - (i) a discussion of any major issues which arose during the audit;
 - (ii) the external auditor's explanation of how the risks to audit quality were addressed;
 - (iii) key accounting and audit judgements;
 - (iv) the external auditor's view of their interactions with senior management; and
 - (v) levels of errors identified during the audit;
- (h) review any representation letter(s) requested by the external auditor before they are signed by management;
- (i) review the management letter and management's response to the auditor's findings and recommendations;
- (j) review the effectiveness of the external audit process, including an assessment of the quality of the audit, the handling of key judgements by the external auditor, and the auditor's response to questions from the Committee; and
- (k) develop and implement policy on the supply of non-audit services by the external auditor, including the approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved and an assessment of whether non-audit services have a direct or material effect on the audited financial statements. This policy should include consideration of:
 - (i) any threats to the independence and objectivity of the external auditor, taking into account relevant ethical standards, legal and regulatory requirements and any safeguards in place;
 - (ii) the nature of any non-audit services;
 - (iii) whether the external audit firm is the most suitable supplier of the non-audit services;
 - (iv) the level of fees to be incurred for non-audit services, both individually and in aggregate, relative to the level of audit fee; and
 - (v) the criteria governing compensation of the individuals performing the audit.

Membership

- 2.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee, in consultation with the chair of the Committee. The Committee shall comprise at least 3 members.
- 2.2 All members of the Committee shall be independent or employee non-executive directors, at least one of whom shall have recent and relevant financial experience, be competent in accounting and/or auditing and shall, preferably, hold a professional qualification from one of the professional accountancy bodies. The Committee as a whole must have competence relevant to the sector in which the Company operates. The chair of the Board shall not be a member of the Committee.
- 2.3 Only members of the Committee have the right to attend Committee meetings. However, other Board Directors and other individuals (including representatives of external advisers) may be invited to attend all or part of any meeting as and when appropriate in the opinion of the chair of the Committee or the majority of its members.
- 2.4 The Board chair, Chief Executive Officer, Chief Financial Officer, Chief General Counsel, Group Risk & Internal Audit Director and external audit lead partner will 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 3 years (subject to the election and re-election provisions in the Company's constitution and in the UK Corporate Governance Code), which may be extended by no more than two further periods of up to 3 years each (subject to the other terms in this document).¹

Chair and Quorum

- 3.1 The quorum necessary for the transaction of business shall be 2 members. 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.
- 3.2 The Board shall appoint the chair of the Committee. In the absence of the chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

Secretary

- 4.1 The Company Secretary or nominee shall act as the Secretary of the Committee. In conjunction with the Chairman the Company Secretary will prepare an Agenda for each meeting which shall be circulated in a timely manner in advance of the meeting to all members of the Committee and attendees, together with any supporting papers. The Company Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.

¹ Boards will need to justify why they consider a non-executive director independent beyond nine years (from the date of their appointment as a director)

Agenda and Meetings

- 5.1 The Committee shall meet at least four times a year.
- 5.2 Meetings of the Committee shall be called by the Secretary of the Committee at the request of its chair.
- 5.3 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 5 working days before the date of the meeting.
- 5.4 The Secretary shall ensure that each member of the Committee (and other attendee as appropriate) receives information and papers in a timely manner to enable proper consideration to be given to issues. Such information and papers can be sent in electronic form if the recipient has agreed to that method of communication.

Annual General Meeting

- 6.1 The chair of the Committee should attend the annual general meeting to answer shareholder questions as appropriate and the remaining Committee members should also attend.

Committee Support and Other Requirements

- 7.1 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 applicable laws and regulations, the provisions of the UK Corporate Governance Code and associated guidance, the requirements of the FCA's Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules, as appropriate;
 - (d) be responsible for co-ordination of the internal and external auditor;
 - (e) oversee any investigation of activities which are within its terms of reference;
 - (f) work and liaise with as necessary with all other Board committees, taking particular account of the impact of risk management and internal controls being delegated to different committees;
 - (g) meet at least annually with the external auditor, the Group Risk & Internal Audit Director and management in separate sessions to discuss any matters requiring private discussion with the Committee;
 - (h) consider any other matter referred to it by the Board; and

- (i) 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.

Reporting Requirements

- 8.1 The chair of the Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities, including how it has discharged its responsibilities.
- 8.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 8.3 The Committee shall produce a report to be included in the Company's annual report and accounts, describing the Committee's work and how it has discharged its responsibilities. Such report shall include:
 - (a) a summary of the role of the Committee;
 - (b) the names and qualifications of all Committee members during the period;
 - (c) the number of Committee meetings;
 - (d) the significant issues that the Committee has considered in relation to the financial statements and how those issues were addressed, having regard to matters communicated to it by the external auditor. The Committee will need to exercise judgement in deciding which of the issues it considers are significant, but should include at least 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;
 - (e) an explanation of how the Committee has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm, when a tender was last conducted, advance notice of any retendering plans (as required or appropriate) and any contractual obligations that have acted to restrict the Committee's choice of external auditor;
 - (f) where the Board does not accept the Committee's recommendation on the external auditor appointment, reappointment or removal, a statement from the Committee explaining its recommendation and the reasons why the Board has taken a different position (which should also be supplied in any papers recommending appointment or reappointment);
 - (g) internal control and risk management;
 - (h) if the external auditor provides non-audit services, the Committee's policy for approval of non-audit services, details of how auditor objectivity and independence is safeguarded, details of the fees paid to the external auditor for audit and non-audit services and the ratio of audit to non-audit work, and an explanation of the non-audit services provided and why the Committee concluded that it was in the interests of the Company to purchase them from the external auditor; and
 - (i) any other issues on which the Board has requested the Committee's opinion.

Delegation

- 9.1 Responsibility for risk and compliance within individual (including regulated) subsidiaries rests with the management of those subsidiaries;
- 9.2 Responsibility for audit within regulated subsidiaries is delegated to the relevant subsidiary board of directors and/or Committee as applicable; and
- 9.3 The Committee shall receive and review escalations from the Group Executive Risk Committee and the Group Financial Services Risk Committee together with minutes of meetings of those committees.
- 9.4 The Group Financial Services Risk Committee chair will attend the Committee on an annual basis to give an update and confirmation that it had discharged its obligations for the regulated businesses.

Authority

- 10.1 The Committee is authorised to:
 - (a) seek any information it requires from any employee of the Company 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;
 - (c) call any employee 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 it and the Board.

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