

# Audit Committee Terms of Reference

---

## 1. Definitions

- "Board" means the Company's Board of Directors
- "Committee" means the Audit Committee of the Company
- "Company" means Dialight plc
- "Group" means the Company's group of companies

## 2. Membership and Chairman

- 2.1 Members of the Committee shall be appointed by the Board on the recommendation of the Nominations Committee and in consultation with the Committee Chairman. The Committee shall consist of at least three members, all of whom shall be independent Non-Executive Directors, as defined in the UK Corporate Governance Code, and at least one of whom shall have recent and relevant financial experience, ideally with a professional qualification from one of the professional accountancy bodies.
- 2.2 Only members of the Committee have the right to attend Committee meetings. Other individuals such as the Group Chairman, Group Chief Executive, Group Finance Director and external advisers may be invited to attend for all or part of any meeting, as and when appropriate.
- 2.3 Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods, provided the director still meets the criteria for membership of the Committee.
- 2.4 The Board shall appoint the Committee Chairman who shall be an independent Non-Executive Director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

## 3. Secretary

- 3.1 The Company Secretary of the Company or his duly appointed nominee will act as the Secretary of the Committee and shall ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

## 4. Quorum

- 4.1 The quorum necessary for the transaction of business shall be two 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.

## 5. Meetings

- 5.1 The Committee shall meet at least three times a year (to coincide with key dates in the Company's financial reporting and audit cycle) and at such other times as the Committee Chairman shall require.
- 5.2 Outside of meetings, the Committee Chairman will maintain a dialogue with key individuals involved in the Company's governance, including the Group Chairman, the Group Chief Executive, the Group Finance Director, the external audit lead partner and the Head of Internal Audit (or external provider of internal audit services).

## **6. Notice of Meetings**

- 6.1 Meetings of the Committee shall be convened by the Secretary of the Committee at the request of any of its members or at the request of the external audit lead partner or Head of Internal Audit (if any) if they consider it necessary.
- 6.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other Non-Executive Directors, no later than three 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.

## **7. Minutes of Meetings**

- 7.1 The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 7.2 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, the minutes should be circulated to other members of the Board unless it would be inappropriate to do so in the opinion of the Committee Chairman.

## **8. Annual General Meeting**

- 8.1 The Committee Chairman shall attend the Annual General Meeting to answer any shareholder questions on the Committee's activities.

## **9. Authority**

The Committee is authorised by the Board to:

- 9.1 investigate any activity which falls within these terms of reference and to make whatever recommendations to the Board it deems appropriate in any area within its remit;
- 9.2 seek any information it requires from any employee of the Group in order to perform its duties and all employees are directed to co-operate with any requests made by the Committee;
- 9.3 call any employee to be questioned at a meeting of the Committee as and when required;
- 9.4 obtain, at the Company's expense, independent legal, accounting or other independent professional advice on any matter it believes necessary to do so and such advisers may attend meetings as necessary; and
- 9.5 have the right to publish in the Company's Annual Report, details of any issues that cannot be resolved between the Committee and the Board.

## **10. Duties**

The Committee should carry out the duties below for the Company, major subsidiary undertakings and the Group as a whole, as appropriate.

### **10.1 Financial reporting:**

- 10.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, interim management statements and any other formal announcement relating to its financial performance, reviewing and reporting to the Board significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor.

10.1.2 The Committee shall review and challenge where necessary:

10.1.2.1 the consistency of, and any changes to, significant accounting policies both on a year on year basis and across the Company/Group;

10.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;

10.1.2.3 whether the Group has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

10.1.2.4 the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and

10.1.2.5 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).

10.1.3 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.

## 10.2 Narrative reporting:

Where requested by the Board, the Committee should review the content of the annual report and accounts and advise the board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

## 10.3 Internal controls and risk management systems:

The Committee shall:

10.3.1 keep under review the adequacy effectiveness of the Group's internal financial controls and internal controls and risk management systems; and

10.3.2 review and approve the statements to be included in the annual report concerning internal controls and risk management.

## 10.4 Compliance, whistleblowing and fraud:

The Committee shall:

10.4.1 review the adequacy and security of the Company's arrangements for the Group's 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;

10.4.2 review the Company's procedures for detecting fraud across the Group; and

10.4.3 review the Company's systems and controls for the prevention of bribery across the Group and receive reports on non-compliance.

## 10.5 Internal audit:

The Committee shall:

10.5.1 monitor and review the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system;

- 10.5.2 approve the appointment and removal of the Head of Internal Audit or external provider of internal audit services;
- 10.5.3 review and approve the remit of the internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- 10.5.4 review and assess the annual internal audit plan;
- 10.5.5 review promptly all reports on the Group from the internal audit function, which shall be provided periodically;
- 10.5.6 review and monitor management's responsiveness to the findings and recommendations of the internal audit function; and
- 10.5.7 meet the Head of Internal Audit or external provider of internal audit services at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the Head of Internal Audit or external provider of internal audit services shall be given the right of direct access to the Group Chairman and to the Committee Chairman and shall be accountable to the Committee.

#### 10.6 External Audit:

The Committee shall:

- 10.6.1 consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- 10.6.2 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 during the duration of the tendering process;
- 10.6.3 oversee the relationship with the external auditor including (but not limited to):
  - 10.6.3.1 recommendations on their remuneration, including both fees for audit or non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - 10.6.3.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 10.6.3.3 assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
  - 10.6.3.4 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Group (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;

- 10.6.3.5 agreeing with the Board a policy on the employment of former employees of the Company's auditor, and monitoring the implementation of this policy;
  - 10.6.3.6 monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
  - 10.6.3.7 assessing annually the qualifications, expertise and resources of the auditors and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
  - 10.6.3.8 seeking to ensure co-ordination with the activities of the internal audit function or process; and
  - 10.6.3.9 evaluating the risk to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of the Company's auditor from the market in that evaluation;
- 10.6.4 meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- 10.6.5 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;
- 10.6.6 review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:
- 10.6.6.1 a discussion of any major issues which arose during the audit;
  - 10.6.6.2 key accounting and audit judgments;
  - 10.6.6.3 levels of errors identified during the audit; and
  - 10.6.6.4 the effectiveness of the audit process.

The Committee shall also:

- 10.6.7 review any representation letter(s) requested by the external auditor before they are signed by management;
- 10.6.8 review the management letter and management's response to the auditor's findings and recommendations; and
- 10.6.9 develop and implement a policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.

## **11. Reporting responsibilities**

- 11.1 In carrying out their responsibilities the Committee members shall act in accordance with the statement of Directors' Duties set out in sections 171 -177 of the Companies Act 2006.
- 11.2 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall formally report to the Board on how it has discharged its responsibilities. The report shall include:
  - 11.2.1 the significant issues that it considered in relation to the financial statements and how these were addressed;
  - 11.2.2 its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
  - 11.2.3 any other issues on which the Board has requested the Committee's opinion.
- 11.3 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 11.4 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 how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor; and all other information requirements set out in the UK Corporate Governance Code.
- 11.5 In compiling the abovementioned reports, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern. The report to shareholders need not repeat the information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

## **12. Other matters**

The Committee shall:

- 12.1 at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval;
- 12.2 have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;
- 12.3 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.
- 12.4 give due consideration to laws and regulations, the provision of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Rules, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate;
- 12.5 be responsible for co-ordination of the internal and external auditors;
- 12.6 oversee any investigation of activities which are within its terms of reference; and
- 12.7 work and liaise as necessary with all other Board committees.

### **13. Authority**

The Committee is authorised to:

- 13.1 seek any information it requires from any employee of the Group in order to perform its duties;
- 13.2 obtain, at the Company's reasonable expense, any independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
- 13.3 call any employee to be questioned at a meeting of the Committee as and when required; and
- 13.4 have the right to publish in the Company's annual report, details of any issues that cannot be resolved between the Committee and the Board.