

**CORERO NETWORK SECURITY PLC**  
**AUDIT, RISK AND COMPLIANCE COMMITTEE**  
**TERMS OF REFERENCE**

## **TERMS OF REFERENCE FOR THE AUDIT, RISK AND COMPLIANCE COMMITTEE**

### **1. MEMBERSHIP**

- 1.1. The Audit, Risk and Compliance Committee ("Committee") shall be appointed by the Board and shall consist of at least two non-executive directors.
- 1.2. The chairman of the Committee shall be appointed by the Board.
- 1.3. The members of the Committee shall be financially literate and keep up to date with the required skill set. At least one member shall have a financial qualification.
- 1.4. The Company Secretary shall be the secretary of the Committee.
- 1.5. The chairmanship of the Committee will be subject to annual review by the Board.

### **2. PURPOSE OF THE COMMITTEE**

- 2.1. The role of the Committee is to assist the Board of directors with discharging its responsibility to:
  - safeguard the Company and Group's assets;
  - evaluate regulatory, technical and operational risks of the Company;
  - maintain adequate accounting records;
  - develop and maintain effective systems of internal control; and
  - ensure all reporting to shareholders and other stakeholders complies with legislation, regulations and good corporate governance.
- 2.2. The Committee will provide a channel of communication between the Board of directors, management and the external auditors.
- 2.3. The Committee should have oversight of the Group as a whole and, unless required otherwise by regulation, carry out the duties below for the parent company, major subsidiary undertakings and the Group as a whole.

### **3. NOTICE AND MINUTES OF MEETINGS**

- 3.1. Meetings of the Committee shall be called by the secretary of the Committee at the request of the Committee chairman.
- 3.2. 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, 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.
- 3.3. The secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.

- 3.4. Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee.

4. **RESPONSIBILITIES OF THE COMMITTEE – AUDIT AND COMPLIANCE MATTERS**

- 4.1. Reviewing the Company and its subsidiaries internal control structures including financial control, accounting systems and reporting.
- 4.2. Liaising with the Company's external auditors.
- 4.3. Considering and making recommendations on the appointment and retention of the external auditors, and any questions of resignation or dismissal of the auditors.
- 4.4. Discussing and reviewing, with the external auditors before the audit commences, the auditors' engagement letter, the terms, nature and scope of the audit, procedures and engagement, as well as the proposed audit fee.
- 4.5. Evaluating the independence and effectiveness of the external auditors and considering whether any non-audit services rendered by such auditors impairs their independence.
- 4.6. Evaluating the performance of the external auditors.
- 4.7. Giving directions to external auditors to address particular areas of concern, in addition to the auditor's minimum statutory and professional duties.
- 4.8. Agreeing the timing and nature of reports from the external auditors.
- 4.9. Ensuring the Committee is advised of material discussions between management and the external auditors.
- 4.10. Considering any problems identified in relation to going concern or statements of internal control.
- 4.11. Considering accounting treatments, significant unusual transactions, or accounting judgements, that could be contentious.
- 4.12. Identifying key matters arising in the auditor's management letter and ensuring such matters or issues are appropriately addressed by the Company's management and directors.
- 4.13. Considering whether any significant ventures, investments or operations should be subject to an external audit.
- 4.14. Obtaining assurance from the external auditors that adequate accounting records are being maintained.
- 4.15. Monitoring the integrity of financial statements of the Company, including its interim and annual financial statements, focusing particularly on:
  - The application of significant accounting policies and any changes to them.
  - The methods used to account for significant or unusual transactions where different approaches are possible.

- 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.
  - 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.
  - The impact of the implementation of new systems.
  - Tax and litigation matters involving uncertainty.
  - Any changes in accounting policies and practices.
  - Significant adjustments resulting from the audit.
  - The basis on which the Company has been determined to operate as a going concern.
  - Compliance with accounting standards (local and international), stock exchange and legal requirements.
  - Material adjustments processed at the year end or half year.
- 4.16. 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.
- 4.17. 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.
- 4.18. Reviewing special documents such as prospectuses.
- 4.19. In relation to the Groups' internal controls and risk management systems:
- review the Company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems; and
  - review and approve the statements to be included in the Annual Report concerning internal control, risk management and the viability statement.
- 4.20. Reviewing the company's systems and controls for the prevention of bribery and receive reports on non-compliance.
- 4.21. Ensuring compliance with laws and regulations of applicable statutes and of controlling bodies.
- 4.22. Ensuring all employees of the Company and subsidiaries may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and that arrangements are in place for the proportionate and independent investigation of such matters with appropriate follow-up action.

## **5. RESPONSIBILITIES OF THE COMMITTEE – RISK MATTERS**

- 5.1. Advise the Board on the Group's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial

environment and drawing on financial stability assessments that may be relevant for the Group's risk policies.

5.2. Oversee and advise the Board on the current risk exposures of the Group and future risk strategy.

5.3. In relation to risk assessment:

- keep under review the Group's overall risk assessment processes that inform the Board's decision making, ensuring both qualitative and quantitative metrics are used;
- review regularly and approve the parameters used in these measures and the methodology adopted; and
- set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance.

5.4. Review the Company's capability to identify and manage new risk types.

5.5. Before a decision to proceed is taken by the Board, advise the Board on proposed strategic transactions including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focussing in particular on risk aspects and implications for the risk appetite and tolerance of the Company, and taking independent external advice where appropriate and available.

5.6. Review reports on any material breaches of risk limits and the adequacy of proposed action.

5.7. Keep under review the effectiveness of the Group's internal financial controls and internal controls and risk management systems and review and approve the statements to be included in the Annual Report concerning internal controls and risk management.

5.8. Provide qualitative and quantitative advice to the Remuneration Committee on risk weightings to be applied to performance objectives incorporated in executive remuneration.

5.9. Review the Group's procedures for detecting fraud.

5.10. Review the Group's procedures for the prevention of bribery.

## **6. ATTENDANCE AT MEETINGS**

6.1. Executive directors, other members of the senior management and representatives of the external auditors should attend meetings as invitees as required by the Committee.

6.2. No attendee shall have a vote at meetings of the Committee.

## **7. FREQUENCY OF MEETINGS**

7.1. Meetings of the Committee will be held as frequently as the Committee considers appropriate but subject to a minimum of two meetings a year.

7.2. The quorum for decisions of the Committee shall be any two members of the Committee present throughout the meeting of the Committee.

## **8. AUTHORITY**

- 8.1. The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
- 8.2. The Committee may propose to the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers it necessary.

## **9. OTHER MATTERS**

The Committee shall:

- 9.1. Have access to sufficient resources in order to carry out its duties, including access to the company secretary for assistance as required.
- 9.2. 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.
- 9.3. Give due consideration to laws and regulations, the provisions of the QCA Code, FRC guidance and regulation and the requirements of the AIM rules, as appropriate.
- 9.4. 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.