

# Terms of Reference: Audit Committee

References to "the Committee" shall mean the Audit Committee.

References to "the Board" shall mean the Board of Directors.

References to "the Company" shall mean Micro Focus International plc

References to "the Group" shall mean the Company, its subsidiaries and its subsidiary undertakings.

## **1 Membership**

- 1.1** Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chair of the Audit Committee. The Committee shall be made up of at least three members.
- 1.2** All members of the Committee shall be independent non-executive directors, at least one of whom shall have recent and relevant financial experience. The Chair of the Board shall not be a member of the Committee.
- 1.3** During such time that the Company has securities registered under the U.S. Securities and Exchange Act of 1934, as amended (the "1934 Act"), each member of the Committee must meet the criteria for independence set forth in Rule 10A-3(b)(1) under the 1934 Act, subject to the exemptions provided in Rule 10A-3(c). Such criteria include that the members of the audit committee shall receive no compensation from the Company, including advisory or consulting compensation, other than compensation paid in connection with their board or committee service, subject to limited exceptions, and such members shall not be affiliates of the Company (as such term is defined in the 1934 Act).
- 1.4** Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chair of the Board, Chief Executive, Chief Financial Officer, other directors, the heads of risk, compliance and internal audit and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate.
- 1.5** The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 1.6** Appointments to the Committee shall be for a period of up to three years, which may be extended for two further periods of up to three years, provided the director remains independent.
- 1.7** Following a recommendation of the Nomination Committee, the Board shall appoint the Committee Chair who shall 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.
- 1.8** The Committee as a whole must have competence relevant to the sector in which the Company operates.

## **2 Secretary**

- 2.1** The company secretary or their nominee shall act as the Secretary of the Committee.

### **3 Quorum**

- 3.1** 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.
- 3.2** Members of the Committee may attend in person or participate by other means which allows those participating to hear and to speak to each other, including teleconference or video conference and quorum in that event shall be any two Committee members so linked.

### **4 Frequency of Meetings**

- 4.1** The Committee shall meet at least four times a year at appropriate times in the reporting and audit cycle and otherwise as required. A meeting shall be held as soon as reasonably practicable upon a request for such meeting by the Company's internal or external auditors.
- 4.2** Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Company's governance, including the Chair of the Board, the Chief Executive, the Chief Financial Officer, the external audit lead partner and the head of internal audit.

### **5 Notice of Meetings**

- 5.1** Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members or at the request of external or internal auditors if they consider it necessary.
- 5.2** 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 or requested to attend and all other non-executive directors, no later than 5 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.
- 5.3** The Committee Chair shall ensure sufficient time is allowed to enable the Committee to undertake as full a discussion as may be required and ensure a sufficient interval is allowed between Committee meetings and main Board meetings to allow any work arising from the Committee meeting to be carried out and reported to the Board as appropriate.

### **6 Minutes of Meetings**

- 6.1** The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2** The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.3** Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board.

## **7 Annual General Meeting**

- 7.1** The Chair of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

## **8 Duties**

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

### **8.1 Financial Reporting**

#### **8.1.1** The Committee shall:

- (i) ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control;
- (ii) monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results announcements and any other formal announcement relating to its financial performance and review and report to the Board significant financial reporting issues and judgements which they contain, having regard to matters communicated by the external auditor; and
- (iii) review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature, provided that such monitoring and review is not inconsistent with any requirement for prompt reporting under the Listing Rules.

#### **8.1.2** The Committee shall review and challenge where necessary:

- (i) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/Group;
- (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
- (iii) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (iv) significant adjustments resulting from the audit;
- (v) the going concern assessment (and the assumptions and qualifications in support thereof) and the longer term viability statement;
- (vi) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
- (vii) 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);
- (viii) 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; and
- (ix) The Committee shall review the annual financial statements of the pension funds where not reviewed by the Board as a whole.

## **8.2 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 Company's position and performance, business model and strategy.

## **8.3 Internal Controls and Risk Management Systems**

The Committee shall:

- 8.3.1** keep under review the adequacy and effectiveness of the Company's internal control and internal financial controls and risk management systems;
- 8.3.2** ensure that a robust assessment of the principal and emerging risks facing the Company, including those that would threaten the business model, future performance, solvency or liquidity and reputation is undertaken at least once a year;
- 8.3.3** keep under review the adequacy of the Company's insurance policies;
- 8.3.4** review the statements to be included in the Annual Report concerning internal controls, risk management and the viability statement, prior to endorsement by the Board;
- 8.3.5** evaluate whether management is setting an appropriate internal control environment by ensuring that employees are aware of the importance of internal control and risk management; and
- 8.3.6** consider how management is controlling the security of IT systems and processes and whether appropriate contingency plans are in place in the event of an IT failure.

## **8.4 Compliance, whistleblowing and fraud**

The Committee shall:

- 8.4.1** 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 and receive regular reports on cases raised. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- 8.4.2** review the Company's procedures for detecting fraud;
- 8.4.3** review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;
- 8.4.4** review regular reports from the Money Laundering Reporting Officer and keep under review the adequacy and effectiveness of the Company's anti-money laundering systems and controls;
- 8.4.5** review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Company's compliance function; and
- 8.4.6** report to the Board on the effectiveness of the arrangements referred to in paragraphs 8.4.1 to 8.4.5 above and the issues raised through these arrangements at least twice a year.

## **8.5 Internal Audit**

The Committee shall:

- 8.5.1** monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- 8.5.2** approve the appointment and removal of the head of the internal audit function;
- 8.5.3** consider 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;
- 8.5.4** review and assess the annual internal audit plan to ensure that it is appropriate for current needs and aligned to the key risks of the business;
- 8.5.5** review promptly all reports on the Company from the internal auditors;
- 8.5.6** review and monitor management's responsiveness to the findings and recommendations of the internal auditor;
- 8.5.7** meet the head of internal audit 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 shall be given the right of direct access to the Chair of the Board and to the Committee; and
- 8.5.8** understand whether internal audit recommendations have been implemented by management.

## **8.6 External Audit**

The Committee shall:

- 8.6.1** consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, about the appointment, re-appointment and removal of the Company's external auditor;
- 8.6.2** ensure that the audit services contract is put out to tender at least every ten years and the selection procedure complies with section 489A of the Companies Act 2006. The Committee is responsible for organising the selection process for a new external auditor and must select at least two potential audit firms to be put forward to the Board, expressing a preference for one of them (and giving reasons for the preference identified). The Committee must state in its recommendation that its recommendation is free from influence from a third party and that no contractual term restricting the choice by the general meeting of the Company's shareholders to certain categories or lists of statutory auditors or audit firms (as fully described in Article 16 (6) of Regulation (EU) No.537 (2014)) has been imposed on the Company. The Committee shall ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;
- 8.6.3** if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 8.6.4** oversee the relationship with the external auditor including (but not limited to):

- (i) approval of their remuneration, whether 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;
  - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (iii) regularly reviewing and monitoring their independence and objectivity taking into account relevant professional and regulatory requirements, ethical standards and the relationship with the external auditor as a whole, including the provision of any non-audit services;
  - (iv) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the external auditor's independence and objectivity;
  - (v) agreeing with the Board a policy on the employment of former employees of the Company's external auditor, taking into account ethical standards and legal requirements, then monitoring the implementation of this policy;
  - (vi) monitoring the external auditor's compliance with relevant legal requirements and ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
  - (vii) assessing annually the qualifications, expertise and resources of the external auditor and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
  - (viii) seeking to ensure co-ordination with the activities of the internal audit function; and
  - (ix) evaluating the risks to the quality and effectiveness of the financial reporting process and considering the need to include the risk of the withdrawal of their external auditor from the market in that evaluation;
- 8.6.5** 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;
- 8.6.6** review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- 8.6.7** review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- (i) a discussion of any major issues which arose during the audit,
  - (ii) explanation of how key risks to audit quality were addressed;
  - (iii) any accounting and audit judgements, and
  - (iv) levels of errors identified during the audit.
- 8.6.8** review the effectiveness of the audit, including an assessment of the quality of the audit, the handling of key judgments by the external auditor and the external auditor's responses to questions from the Committee, taking into account relevant professional and regulatory standards;
- 8.6.9** review any representation letter(s) requested by the external auditor before they are signed by management;

- 8.6.10** review the management letter and management's response to the external auditor's findings and recommendations; and
- 8.6.11** develop and implement a policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services taking into account relevant regulations and ethical guidance regarding the provision of non-audit services by the external audit firm, and report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and reporting to the Board on any improvement or action required. The policy should include consideration of the following matters:
- (i) threats to the independence and objectivity of the external auditor and any safeguards in place;
  - (ii) the nature of the non-audit services;
  - (iii) whether the external audit firm is the most suitable supplier of the non-audit services;
  - (iv) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
  - (v) the criteria governing compensation.

## **8.7 Reporting Responsibilities**

- 8.7.1** The Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 8.7.2** The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 8.7.3** The Committee shall compile a report to shareholders on its activities to be included in the Company's Annual Report.
- 8.7.4** The Committee shall make these terms of reference available on request and include them on the Company's website.
- 8.7.5** The separate section in the Company's Annual Report should describe the work of the Committee in discharging the responsibilities set out in these terms of reference, and should include, inter alia:
- (i) a summary of the role of the Committee;
  - (ii) the names and qualifications of all members of the Committee during the period;
  - (iii) the number of Committee meetings and attendance by each member;
  - (iv) a report on the way the Committee has discharged its responsibilities;
  - (v) the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;
  - (vi) an explanation of how it has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering;
  - (vii) in the case of the Board not accepting 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;

- (viii) a statement that the Committee considered the annual report and accounts, taken as whole, is fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy; and
- (ix) an explanation to the shareholders of how, if the external auditor provides non-audit services, auditor objectivity and independence is safeguarded.

**8.7.6** To the extent required by, and in accordance with, Section 404 of the Sarbanes Oxley Act and enabling regulations, the Committee shall ensure that each annual report published by the Company contains a report stating that the Committee is responsible for establishing and maintaining an adequate internal control structure and procedures for financial reporting. The annual report shall also contain an assessment, as of the end of the Company's most recent fiscal year, of the effectiveness of this internal control structure and these financial reporting procedures. The Committee shall also ensure that registered external auditors are appointed to attest to the accuracy of the Company's assertion that the internal accounting controls it has established are in place, operational and effective.

## **8.8 Other Matters**

The Committee shall:

- 8.8.1** have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 8.8.2** 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;
- 8.8.3** give due consideration to applicable laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing Rules and Disclosure Guidance and Transparency Rules as appropriate;
- 8.8.4** be responsible for co-ordination of the internal and external auditors;
- 8.8.5** oversee any investigation of activities which are within its terms of reference and act as a court of the last resort; and
- 8.8.6** 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.

## **9 Authority**

The Committee is authorised to:

- 9.1** seek any information it requires from any employee of the Company in order to perform its duties;
- 9.2** obtain, at the Company's expense, outside legal or other professional advice on any matter it believes necessary to do so;
- 9.3** call any employee to be questioned at a meeting of the Committee as and when required;

- 9.4** 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;
- 9.5** investigate any activity within the scope of its duties; and
- 9.6** work and liaise as necessary with all other Board committees.