AUDIT & RISK COMMITTEE
TERMS OF REFERENCE

1. PURPOSE

The purpose of the Committee is to provide formal and transparent arrangements for considering how to apply financial reporting, risk management and internal control principles and to maintain an appropriate relationship with the Company’s auditors.

2. MEMBERSHIP

2.1 The Committee shall comprise at least three members, all of whom shall be independent non-executive directors. If the Board decides that a member of the Committee is no longer independent, that member will cease to be a member of the Committee. At least one member shall have been determined by the Board to have recent and relevant financial experience and the Committee as a whole shall have competence relevant to the sector in which the Company operates. The Chair shall not be a member of the Committee.

2.2 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Committee Chair. Appointments shall be for a period of up to three years which may be extended for up to two additional three-year periods, provided members continue to be independent.

2.3 Only members of the Committee have the right to attend Committee meetings. However, the Chief Financial Officer, the head of internal audit (if appointed) and external audit lead partner will be invited to attend meetings of the Committee on a regular basis and other individuals may be invited to attend all or part of any meeting as and when appropriate.

2.4 The Board shall appoint the Committee Chair. In the absence of the Committee Chair and/or an appointed deputy at a Committee meeting, the remaining members present shall elect one of themselves to chair the meeting.

2.5 Decisions of the Committee will be made by majority vote. In the event of an equality of votes, except where he or she has a personal interest, the Committee Chair shall have a casting vote.

3. SECRETARY

The Company Secretary or his or her nominee shall act as the Committee Secretary and will 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

The quorum necessary for the transaction of business shall be two members (and at least one of the members present in any quorum shall have significant recent and relevant financial experience).

5. FREQUENCY OF MEETINGS

5.1 The Committee shall meet regularly and at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required. The Committee may hold meetings at a physical place or by means of any electronic facility (or both in respect of the same meeting).

5.2 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, the Chief
Executive Officer, the Chief Financial Officer, the external audit lead partner and the head of internal audit (if appointed).

6. **NOTICE OF MEETINGS**

6.1 Meetings of the Committee shall be called by the Secretary at the request of the Committee Chair or any of its members, or at the request of the external audit lead partner or head of internal audit (if appointed) if he or she considers it necessary.

6.2 Unless otherwise agreed by the Committee, notice of each meeting confirming the venue (if relevant), the electronic facility to be used for the meeting (if relevant), time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, and any other person required to attend no later than five 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.

6.3 Notices, agendas and supporting papers can be sent in electronic form.

7. **MINUTES OF MEETINGS**

7.1 The Secretary shall minute the proceedings and resolutions of all Committee meetings, including recording the names of those present and in attendance.

7.2 Draft minutes of Committee meetings shall be circulated to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board and the Company Secretary unless, exceptionally, the Committee Chair thinks it would be inappropriate to do so.

7.3 Final signed copies of the minutes of the meetings of the Committee should be maintained for the Company’s records.

8. **ANNUAL GENERAL MEETING**

The Committee Chair should attend the AGM to answer any shareholder questions on the Committee’s activities. In addition, the Committee Chair should seek engagement with shareholders on significant matters related to the Committee’s areas of responsibility.

9. **DUTIES**

The Committee should have oversight of the Group as a whole and, unless required otherwise by regulation, carry out the duties below for the Company, its major subsidiary undertakings, and the Group as a whole, as appropriate.

9.1 **Financial reporting**

(a) The Committee shall monitor the integrity of the financial statements of the Company and its Group, including its annual and half-yearly reports and any quarterly reports or interim management statements and any discussion and analysis of the financial condition and results of operations of the Company, preliminary announcements and any other formal statements relating to its financial performance, and review and report to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor.

(b) In particular, the Committee shall review and challenge where necessary:

(i) the application of significant accounting policies and any 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 external auditor’s views 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; and

(v) all material information presented with the Company’s financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management.

(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 Listing Rules, Prospectus Rules and DTRs.

(d) 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.

9.2 Risk appetite, tolerance and strategy

The Committee shall:

(a) advise the Board on the Company’s overall risk appetite, tolerance and strategy, and the principal and emerging risks the Company is willing to take in order to achieve its long-term strategic objectives;

(b) seek assurance on the risks the Company identifies as those to which the business may be exposed;

(c) advise the Board on the likelihood and the impact of principal risks materialising, and the management and mitigation of principal risks to reduce the likelihood of their incidence or their impact; and

(d) advise the Board on the risk aspects of proposed changes to strategy and strategic transactions including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focussing in particular on implications for the risk appetite, tolerance and strategy of the Company, and taking independent external advice where appropriate and available.

9.3 Narrative reporting

(a) 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, position, business model and strategy and whether it informs the Board’s statement in the annual report on these matters that is required under the UK Corporate Governance Code.

(b) In addition, the Committee shall carry out the following duties to assist the Board in fulfilling its responsibilities in the annual report:

(i) monitor and review the adequacy and effectiveness of the Company’s risk management and internal control systems;
(ii) review the Company’s procedures to manage or mitigate principal risks and to identify emerging risks, to assist in the Board’s assessment of principal and emerging risks;

(iii) review and assess the Company’s risk appetite and associated stress testing;

(iv) evaluate the Company’s principal risks, to be taken into account by the Board when assessing the Company’s prospects; and

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

9.4 Internal controls and risk management systems

The Committee shall:

(a) keep under review the Company’s internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems;

(b) review and approve the statements to be included in the annual report concerning internal controls, risk management, including the assessment of principal risks and emerging risks, and the viability statement; and

(c) oversee and seek suitable assurance regarding:

(i) the risk exposures of the Company, including risk to the Company’s business model, and solvency and liquidity risks;

(ii) the adequacy and effectiveness of the Company’s processes and procedures to manage risk and the internal control framework, including the design, implementation and effectiveness of those systems;

(iii) the ability of the Company’s risk management and internal control systems to identify the risks facing the Company and enable a robust assessment of principal risks;

(iv) the Company’s ability to identify and manage new and emerging risks;

(v) the effectiveness and relative costs and benefit of particular controls;

(vi) the effectiveness of management’s processes for monitoring and reviewing the effectiveness of risk management and internal control systems and ensuring corrective action is taken when necessary;

(vii) the Company’s ability to reduce the likelihood of principal risks materialising and the impact on the business of risks that do materialise;

(viii) the appropriateness of the Company’s values and culture and reward systems for managing risk and internal controls, and the extent to which the culture and values are embedded at all levels of the Company; and

(ix) the head of financial risk management and compliance’s right of direct access to the Chair and the Committee.
9.5 Compliance, speaking-up and fraud

The Committee shall:

(a) review the adequacy and security of the Company’s arrangements for its employees, contractors and external parties 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;

(b) review the Company’s procedures for preventing and detecting fraud;

(c) review the Company’s systems and controls for the prevention of bribery and receive reports on non-compliance; and

(d) review regular reports from the General Counsel and keep under review the adequacy and effectiveness of the Company’s compliance function.

9.6 External audit

The Committee shall:

(a) 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 auditors;

(b) develop and oversee the selection procedure for the appointment of the audit firm in accordance with applicable Code and regulatory requirements, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process;

(c) if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;

(d) oversee the relationship with the external auditors including (but not limited to):

   (i) approving their remuneration, including both fees for audit or non-audit services, and ensuring that the level of fees is appropriate to enable an effective and high quality audit to be conducted;

   (ii) approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

(e) assess annually the external auditor’s independence and objectivity taking into account relevant law, regulation, the Ethical Standards and other professional requirements and the group’s 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 non-audit services;

(f) 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 auditors 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;
satisfy 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;

agree with the Board a policy on the employment of former employees of the Company’s auditor, taking into account the Ethical Standards and legal requirements, and monitor the application of this policy, including the Committee’s own safeguards relating to independence, and considering whether there has been any impairment or appearance of impairment of the external auditor’s independence and objectivity;

monitor the auditor’s processes for maintaining independence, its compliance with relevant law, regulation, other professional requirements and the Ethical Standards, including the guidance on the rotation of audit partner and staff;

monitor 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 assess these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standards;

assess annually the qualifications, expertise and resources, and independence of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;

seek to ensure coordination of the external audit with the activities of the internal audit function;

evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor’s communications with the Committee;

develop and recommend to the Board the Company’s formal policy on the provision of non-audit services by the auditor, including prior approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. 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 service;

(iv) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and

(v) the criteria governing compensation;

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, meet with the external auditor without management being present, to discuss the auditor’s remit and any issues arising from the audit;

discuss with the external auditor the factors that could affect audit quality and 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;
(q) 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) the auditor’s explanation of how the risks to audit quality were addressed;
(iii) key accounting and audit judgments;
(iv) the auditor’s view of their interactions with senior management; and
(v) levels of errors identified during the audit;

(r) review and monitor management’s responsiveness to the external auditor’s findings and recommendations;

(s) review any representation letter(s) requested by the external auditor before it is (they are) signed by management;

(t) review the management letter and management’s response to the auditor’s findings and recommendations; and

(u) review the effectiveness of the audit process, 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.

10. REPORTING RESPONSIBILITIES

10.1 The Committee Chair shall report formally to the Board on the Committee’s proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:

(a) the significant issues that it considered in relation to the financial statements and how these were addressed;

(b) its assessment of the effectiveness of the external audit process (required under paragraph 9.6(k)), the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans; and

(c) any other issues on which the Board has requested the Committee’s opinion.

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

10.3 The Committee shall compile a report on its activities to be included in the Company’s annual report to shareholders. The report should describe the work of the Committee, including:

(a) the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;

(b) 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 auditors, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans; and
an explanation for how auditor independence and objectivity are safeguarded if the external auditor provides non-audit services, having regard to matters communicated to it by the auditor and all other information requirements set out in the UK Corporate Governance Code.

10.4 In compiling the reports referred to in 10.1 and 10.3, the Committee should exercise judgment in deciding which of the issues in relation to the financial statements 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. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide a cross-reference to that information.

10.5 The directors’ report in the annual report and accounts should set out risk management objectives and policies including in relation to financial instruments.

11. OTHER MATTERS

11.1 The Committee shall:

(a) have access to sufficient resources in order to carry out its duties including access to the Secretary 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 laws and regulations, the provisions of the UK Corporate Governance Code and published guidance, the requirements of the FCA’s Listing Rules, Prospectus Rules and DTRs and any other applicable rules, as appropriate;

(d) be responsible for co-ordination of the internal and external auditors;

(e) oversee any investigation of activities which are within its terms of reference;

(f) work and liaise as necessary with all other Board committees ensuring interaction between committees and with the Board is reviewed regularly, taking particular account of the impact of risk management and internal controls being delegated to different committees;

(g) ensure that a periodic evaluation of the Committee’s performance is carried out;

(h) 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; and

(i) perform any other activities consistent with the Company’s articles of association and governing law of the Company as the Board or the Committee shall deem appropriate, including holding meetings with the Company’s investments bankers and financial analysts.

12. AUTHORITY

The Committee is authorised by the Board to:

(a) undertake any activity within its terms of reference;

(b) seek any information it requires from any employee, contractor, consultant or other provider of services to the Company in order to perform its duties;
(c) obtain, at the Company’s expense, independent legal, accounting or other professional advice on any matter within its terms of reference that it believes is necessary to do so, and invite persons giving such advice to attend Committee meetings;

(d) call any employee to be questioned at a meeting of the Committee as and when required;

(e) delegate any of its powers to one or more of its members or the Committee Secretary; and

(f) 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. If the Board has not accepted the Committee’s recommendation on the external auditor appointment, reappointment or removal, the annual report should include a statement explaining the Committee’s recommendation and the reasons why the Board has taken a different position.

13. DEFINITIONS AND INTERPRETATION

13.1 In these terms of reference, unless the context otherwise requires:

“AGM” means the annual general meeting of the shareholders of the Company;

“Board” means the board of directors of the Company;

“Chair” means the chair of the Board;

“Chief Executive Officer” means the chief executive officer of the Company from time to time;

“Chief Financial Officer” means the chief financial officer of the Company from time to time;

“Committee” means the audit and risk committee of the Company;

“Committee Chair” means the chair of the Committee;

“Company” means Darktrace plc;

“DTRs” means the Disclosure Guidance and Transparency Rules of the FCA;

“Ethical Standards” means the FRC Revised Ethical Standard December 2019;

“Group” means the Company and its subsidiaries;

“Listing Rules” means the listing rules of the FCA;

“Nomination Committee” means the nomination committee of the Company;

“Prospectus Rules” means the prospectus regulation rules of the FCA, as amended from time to time;

“Remuneration Committee” means the remuneration committee of the Company;

“Secretary” means the secretary of the Committee;

“UK Corporate Governance Code” means the UK Corporate Governance Code issued by the Financial Reporting Council, as amended from time to time; and