

APTITUDE SOFTWARE GROUP PLC

# TERMS OF REFERENCE FOR THE BOARD AND BOARD COMMITTEES

In this document a reference to “UK Corporate Governance Code” means the UK Corporate Governance Code issued by the Financial Reporting Council in July 2018 for financial years beginning on or after 1 January 2019 (“the Code”).

## INTRODUCTION

The Code sets out standards of governance and requires clear division of responsibilities at the head of the company between the running of the Board and executive responsibility for the running of the business. It is a requirement of the FCA Listing Rules that the Code is observed and that the manner and extent of observance be set out in the annual report and accounts of a company (See Listing Rule 9.8.6(5) and (6) in the extracts set out below). This document sets out terms of reference for the Board and Board Committees of Aptitude Software Group plc and adopts governance standards as set out in the Code.

## A. BOARD OF DIRECTORS

Main principle: A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

### 1 MEMBERSHIP

- 1.1 The Board shall consist of a maximum of ten directors and a minimum of two directors.
- 1.2 At least half the Board, excluding the Chair, should be Non-Executive Directors whom the Board considers to be independent. [Code provision 11]
- 1.3 The Chairman shall be appointed by the Board. One Non-Executive Director should be designated as “Senior Independent Non-Executive Director”.
- 1.4 Any two Directors shall form a quorum, of which at least one must be a Non-Executive Director.
- 1.5 Non-Executive Directors should scrutinise the performance of management in meeting agreed goals and objectives.
- 1.6 Meetings should be held between the Non-Executive Directors and the Chairman without the Executive Directors being present [Code provision 13].
- 1.7 The Non-Executive Directors shall also meet together without the Chairman present at least annually to appraise the Chairman’s performance and on such other occasions as are deemed appropriate (or alternatively review the findings of the Nomination Committee if it undertakes this review). The Senior Independent Non-Executive Director shall lead such meeting [Code provision 12].
- 1.8 One or more designated Non-Executive Director(s) will be responsible for ensuring and monitoring engagement with the wider workforce by the Board of Directors [Code provision 5].

## **2 SCHEDULE OF MATTERS SPECIFICALLY RESERVED FOR THE BOARD'S DECISION** [required under Code provision 14]

- 2.1 Review at the monthly Board Meetings the operational and financial performance of the Group.
- 2.2 Approve all Treasury and Foreign Exchange policies and procedures and any amendments thereto.
- 2.3 Approve the Group's Capital Expenditure policies, and specifically to authorise all Capital Expenditure items in excess of £100,000.
- 2.4 Approve the following:
  - a. Bank Lending Facilities;
  - b. Acquisitions / Mergers / Disposals;
  - c. Corporate Guarantees;
  - d. Hedging Policies;
  - e. Joint Ventures;
  - f. Appointment of Financial Advisors;
  - g. List of Principal Risks and Uncertainties;
  - h. Any material non-standard transactions; and
  - i. property leases with an annual commitment of in excess of £50,000.
- 2.5 Review the Group Management Accounts at each monthly Board Meeting.
- 2.6 Approve the annual Financial Plan following detailed review with the Executives.
- 2.7 Approve the Group's Internal Control procedures following review by the Audit Committee.
- 2.8 Approve the Company Secretary's statement on compliance and other policies as incorporated in the Report of the Directors.
- 2.9 Assess the performance of each Board Committee and the Board itself on an annual basis, acting upon the findings of the annual performance evaluation process led by the Nomination Committee.
- 2.10 Review and approve remuneration packages for the Non-Executive Directors.
- 2.11 Establish the Company's purpose, values and strategy and ensure that these and its culture are aligned across the organisation.

## **3 AUTHORITY TO OBTAIN ADVICE AND ACCESS TO COMPANY SECRETARY**

- 3.1 Directors are authorised to obtain, at the Company's expense, independent professional advice where they judge it necessary to discharge their responsibilities as directors. Application should be made in the first instance to the Company Secretary.
- 3.2 All Directors have access to the advice of the Company Secretary, who is responsible for advising the Board on all governance matters [*Code provision 16*].



## **B. AUDIT COMMITTEE**

Main Principle: The Board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of the financial and narrative statements.

### **1 MEMBERSHIP**

- 1.1 The Committee will consist of at least two independent Non-Executive Directors [Code provision 24].
- 1.2 The Chair of the Board will not be a member of the Committee [Code provision 24].
- 1.3 At least one member of the Committee shall have recent and relevant financial experience [Code provision 24]. At least one member must have competence in accounting and/or auditing [DTR 7.1.1R]. In addition, the members of the Committee shall have competence relevant to the sector in which the Company operates [Code provision 24 and DTR 7.1.1R].
- 1.4 The Committee Chair shall be independent and be appointed by the Board [DTR 7.1.1R].
- 1.5 The Chairman of the Board and the Executive Directors may be invited to attend meetings of the Audit Committee.
- 1.6 The Company Secretary shall be the Secretary of the Committee.
- 1.7 In the Committee any two members shall form a quorum.

### **2 TERMS OF REFERENCE**

- 2.1 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 reasonable and appropriate request made by the Committee.
- 2.2 The Committee shall ensure:
  - a. Compliance with the fundamentals in DTR 7.1.3 of the FCA Disclosure and Transparency Rules (See the Appendix below)
  - b. That there is set out in the Company's Annual Report and Accounts the basis on which the Board consider that:
    - (i) the report is fair, balanced and understandable; and
    - (ii) provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.
- 2.3 In accordance with Code provision 25, the Committee shall:
  - a. Monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company financial performance, reviewing significant financial reporting judgments contained within them.
  - b. Advise the Board on whether the Annual Report is fair, balanced and understandable and provides the information necessary for users to assess the Company's position, performance, business model and strategy.
  - c. Review the Company's internal financial controls and internal risk management systems; and unless expressly addressed by a separate board risk committee composed of independent directors, or by the Board itself.
  - d. Monitor and review the effectiveness of the internal audit function. Where there is no internal audit function, the Committee should consider annually whether there is a need for one and make a recommendation to the Board accordingly.



- e. Review and monitor the Company's statement to shareholders on internal control systems prior to endorsement by the Board [DTR 7.2.5R].
- f. Conduct any external audit tender process and make recommendations to the Board, about the appointment, reappointment and removal of the external auditor.
- g. Review and approve the remuneration and terms of engagement of the external auditor.
- h. Review and monitor the external auditor's independence and objectivity.
- i. Review the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements.
- j. Develop and implement policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard, and reporting to the Board on any improvement or action required.
- k. Report to the Board on how it has discharged its responsibilities.

2.4 The Committee shall also:

- a. Make recommendations to the Board, for it to be put to the Shareholders for their approval in a General Meeting, in relation to the appointment or re-appointment of the external auditor and to approve the remuneration and the terms of engagement.
- b. Discuss with the external auditor before the audit commences the nature and scope of the audit and ensure co-ordination where more than one audit firm is involved.
- c. Review and consider the integrity of the half-year and annual financial statements before submission to the Board, focusing particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) adjustments and significant financial reporting judgments resulting from the audit;
  - (iv) compliance with accounting standards; and
  - (v) compliance with FCA Listing Rules, the Companies Act 2006 and other legal requirements
- d. Report to the Board on how it has discharged its responsibilities.
- e. Discuss problems and reservations arising from the interim and final audits and any matters the auditor may wish to discuss (in the absence of management where necessary).
- f. Consider the major findings of internal investigations and management's response.
- g. Ensure that the Committee Chair or, in their absence, an appointed deputy attends the Company's Annual General Meeting to answer shareholders' questions about the work of the Committee.
- h. Ensure there is a separate section of the Company's Annual Report and Accounts which describes the work of the Committee in discharging its responsibilities. The report should include:
  - (i) The significant issues that it considered in relation to the financial statements, and how these issues were addressed;
  - (ii) An assessment of the effectiveness of the external auditor and the approach taken to the appointment or reappointment of the external auditor, including the length of tenure of the current audit firm, when a tender was last conducted; and advance notice of any retendering plans.



- (iii) In the case of the Board not accepting the Committee’s recommendation on the external auditor appointment, reappointment or removal, a statement from the Audit Committee explaining its recommendation and the reasons why the Board has taken a different position (this should also be supplied in any papers recommending appointment or reappointment);
- (iv) Where there is no internal audit function, an explanation for the absence, how internal assurance is achieved, and how this affects the work of external audit; and an explanation of how auditor independence and objectivity are safeguarded, if the external auditor provides non-audit services.

[Code provision 26 and DTR 7.1.5 R and 7.2.7 R (see Appendix below)]

- (i) Consider other related topics, as defined by the Board.

### **3 AUTHORITY TO OBTAIN ADVICE AND ACCESS TO THE COMPANY SECRETARY**

- 3.1 The Committee is authorised to obtain, at the Company’s expense, independent professional advice, if the Committee considers this necessary in order to discharge its responsibilities. Application should be made in the first instance to the Company Secretary.
- 3.2 All Committee members have access to the advice of the Company Secretary, who is responsible for advising them on all governance matters [Code provision 16].



## C. REMUNERATION COMMITTEE

Main principles: Remuneration policies and practices should be designed to support strategy and promote long term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy.

A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

### 1 MEMBERSHIP

- 1.1 The Committee will consist of a minimum of two independent Non-Executive Directors [Code provision 32].
- 1.2 The Chair of the Committee shall be appointed by the Board. Prior to appointment, the Chair of the Committee should have served on a remuneration committee for at least 12 months [Code provision 32].
- 1.3 The Chair of the Board may only be a member of the Committee if they were independent on appointment and they cannot chair the Committee [Code provision 32].
- 1.4 The Executive Directors may be invited to attend meetings of the Committee.
- 1.5 The Company Secretary shall be the Secretary of the Committee.
- 1.6 In the Committee any two members shall form a quorum.

### 2 TERMS OF REFERENCE

- 2.1 The Committee shall:
  - a. Have delegated responsibility for determining the policy for Executive Director remuneration and setting remuneration for the Executive Directors and the Senior Leadership Team [Code provision 33].
  - b. Review workforce remuneration and related policies and the alignment of incentives and rewards with culture, taking these into account when setting the policy for Executive Director remuneration [Code provision 33].
- 2.2 The remuneration of the Non-Executive Directors shall be a matter for the Board.
- 2.3 The Committee shall:
  - a. In determining remuneration policy, take into account factors which it deems necessary, but including [Code provision 40]:
    - (i) Clarity and transparency, in order to promote engagement with shareholders and the workforce.
    - (ii) Simplicity and ease of understanding.
    - (iii) Mitigation of reputation and behavioural risks that could arise from target-based incentive plans.
    - (iv) Predictability, with any ranges of possible rewards, limits and discretions being clearly identified.



- (v) Proportionality, with a clear link between individual awards and delivery of strategy and long term performance, ensuring that poor performance is not rewarded.
  - (vi) Alignment to the culture, purpose and values of the Company.
- b. Ensure that the Executive Directors and Senior Leadership Team are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions. Discretion should be applied by the Committee to override any formulaic or unfair outcomes [Code provision 37].
  - c. Ensure that any performance-related elements of Executive Directors' remuneration are stretching and designed to promote the long term success of the Company. The Committee should therefore approve the targets for any performance related pay schemes operated by the Company and ensure compliance with the Code [Code provision 36].
  - d. Promote long term shareholdings by Executive Directors, including a total vesting and holding period for share option awards of five years or more, and the phased sale of any shares resulting from vested share options [Code provision 36].
  - e. Provide for post-employment shareholding requirements by Executive Directors [Code provision 36].
  - f. Within the terms of the agreed policy, determine the total individual remuneration packages of Executive Directors which will fall under "Specified Remuneration" under the Company's articles of association, being salary, commission, bonus, participation in profits, share option and other incentive schemes, bonus shares and analogous benefits.
  - g. Ensure that notice periods for Executive Directors are not longer than one year and that any compensation in respect of departing Directors is robustly scrutinised and does not promote poor performance [Code provision 39].
  - h. Ensure that the policy provides for the Company to recover or withhold sums of share awards from Executive Directors in specified circumstances [Code provision 37].
  - i. Ensure that basic salary and pension arrangements for the Executive Directors are carefully considered and reviewed against wider workforce arrangements [Code provision 33].
  - j. In determining such packages and arrangements, give due regard to the comments and recommendations of the UK Corporate Governance Code as well as the FCA Listing Rules, Disclosure and Transparency Rules and associated guidance.
  - k. Oversee any major changes in employee benefit structures throughout the Company or Group.
  - l. Produce and oversee the Directors' Remuneration Report (which will form part of the Company's Annual Report and Accounts) with content as required by the Companies Act 2006, the UK Corporate Governance Code and the FCA Listing Rules [Code provision 41].
  - m. Ensure that the Committee Chair or an appointed deputy attends the Company's AGM to answer any shareholders' questions about directors' remuneration.
  - n. Have responsibility for any appointed remuneration consultants, identify them in the Annual Report and a statement made as to whether or not they have any other connection with the Company. When evaluating any advice received from external third parties, or when receiving views from Executive Directors and Senior Management, independent judgement should be exercised [Code provision 35].



### **3 AUTHORITY TO OBTAIN ADVICE AND ACCESS TO THE COMPANY SECRETARY**

- 3.2 The Committee is authorised to obtain, at the Company's expense, independent professional advice if the Committee considers this necessary in order to discharge its responsibilities. Application should be made in the first instance to the Company Secretary.
- 3.3 All Committee members have access to the advice of the Company Secretary, who is responsible for advising them on all governance matters [Code provision 16].





## **D. NOMINATION COMMITTEE**

Main Principles: Maintain a formal, rigorous and transparent procedure for the appointment of new directors to the Board and an effective succession plan. Both should be based on merit and objective criteria and should promote diversity of gender, social, and ethnic backgrounds, cognitive and personal strengths.

Annual evaluation should consider the composition, diversity, how effectively members work together and whether each Director continues to contribute effectively.

### **1 MEMBERSHIP**

- 1.1 The Committee shall consist of the Non-Executive Directors and a majority of these should be independent [*Code provision 17*].
- 1.2 The Chair of the Board should not Chair the Committee when dealing the appointment of their own successor or own performance.
- 1.3 In the Committee any two members shall form a quorum.
- 1.4 The Company Secretary shall be Secretary to the Committee. The Committee shall meet at least once per year.

### **2 TERMS OF REFERENCE**

- 2.1 The Committee shall:
  - a. Review regularly the structure, the size and composition of the Board in order to make recommendations to the Board with regard to any changes, giving due regard to:
    - (i) the skills, knowledge and experience required; and
    - (ii) the benefits of diversity on the Board including gender, social, and ethnic backgrounds, cognitive and personal strengths;
  - b. Be responsible for identifying and nominating candidates against objective criteria for the approval of the Board to fill Board vacancies as and when they arise.
  - c. Give full consideration to succession planning for Directors, including the Executive Directors and the Senior Leadership Team, taking into account the challenges and opportunities facing the Company and what skills and expertise are therefore needed on the Board in future to support a diverse pipeline.
  - d. Before an appointment is made by the Board, evaluate the balance of skills, experience, independence and knowledge on the Board and, in the light of this evaluation prepare a description of the role and capabilities required for a particular appointment.
- 2.2 In identifying suitable candidates, the Committee shall:
  - a. where appropriate, use open advertising or the services of external advisers to facilitate the search;
  - b. consider candidates from a wide range of social and ethical backgrounds, genders and personal strengths.
  - c. consider candidates on merit and against objective criteria.
  - d. when making recommendations for appointments to the Board, consider whether candidates have any other significant commitments that would impact their ability to devote sufficient time and attention to their role as a Board member.



## 2.3 The Committee shall:

- a. Ensure that annual performance evaluations are used to assess whether each Executive Director and Non-Executive Director continues to contribute effectively to the Board and demonstrates a commitment to his role, including commitment of time for Board and Committee meetings and to fulfil his duties. Evaluation of the Board should consider the balance of skills, experience, independence and knowledge of the Company on its Board, its diversity, how the Board works together as a unit and other factors relevant to its effectiveness.
- b. Led by the Senior Independent Director, and without the Chair present, ensure that the performance and effectiveness of the Chair is evaluation at least annually.
- c. Determine whether an internal or external process is used for the annual performance evaluation of the Board, taking into account the size of the Company and the composition of the Board.
- d. Ensure that on appointment to the Board, Non-Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board meetings. All Directors should receive a full, formal and tailored induction on joining the Board. Directors should regularly update and refresh their skills and knowledge.
- e. Make recommendations to the Board concerning:
  - (i) the annual re-election by shareholders or re-appointment of any Executive Director following formal performance evaluation and determination that the individual's performance continues to be effective, that they demonstrate commitment to the role and that they have the requisite knowledge and skills;
  - (ii) the annual re-election by shareholders or re-appointment of any Non-Executive Director following formal performance evaluation and determination that the individual's performance continues to be effective, that they demonstrate commitment to the role and that they have the requisite knowledge and skills;
  - (iii) the appointment of any member of the Senior Leadership Team.
  - (iv) give due consideration to the tenure and the ongoing independence of Non-Executive Directors, taking into consideration the factors set out in Provision 10 of the Code regarding independence.
  - (v) any matters relating to the continuation in office of any Director at any time including the suspension or termination of service of an Executive Director as an employee of the Company subject to the provisions of the law and their service contract; and
- f. Report to Shareholders on its work in a separate section of the Company's Annual Report and Accounts [Code provision 23] including:
  - (i) a description of the Committee's approach to succession planning and appointments and how these activities support a diverse pipeline.
  - (ii) how the Board evaluation has been conducted and how it will influence Board composition.
  - (iii) the policy on diversity and inclusion, including its objectives, how it links to company strategy and how it has been implemented and progressed to achieve the objectives.
  - (iv) the gender balance of both the Board and the Senior Leadership Team.
  - (v) Where the Committee uses an external search consultancy, identify them in the Annual Report and include a statement of how this evaluation was conducted.



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**27 January 2020**

