

Audit Committee Report

PLC



David Coghian

ANNUAL STATEMENT MADE BY THE AUDIT COMMITTEE CHAIRMAN

The Audit Committee's role is to assist the Board with the discharge of its responsibilities in relation to internal and external audits and financial controls. I chaired the Audit Committee which met twice during 2018. I have the requisite recent and relevant financial experience to do so. Meetings are planned around the financial calendar for the Company. The Finance Director and Chief Executive Officer and other senior management attend meetings by invitation only and the Committee also meets the external auditors without any SCISYS Executive Directors being present. On behalf of the Audit Committee I report to the Board on how it has discharged its responsibilities.

During the year the Audit Committee, operating under its terms of reference, reviewed and considered the following matters:

- the Company's interim and year-end financial statements, including consideration of the appropriateness of accounting policies and material assumptions and estimates adopted by management;
- developments in accounting and reporting requirements;
- the external auditors' plan for the year-end audit of the Company and its subsidiaries;
- the performance and effectiveness of the Audit Committee;
- the composition of the Audit Committee;
- the systems of internal financial control and risk management and their effectiveness;
- reporting and making new recommendations to the Board and receiving regular updates on key risk areas of financial control;
- the policy on whistleblowing, whereby staff may raise concerns in confidence about possible improprieties;
- the audit fees proposed or charged by the external auditors;
- the conduct of a competitive tender process resulting in the removal of KPMG LLP as the external auditor and the subsequent appointment of Ernst & Young LLP (explained in more detail below);
- the evaluation of the performance and independence of KPMG LLP as the Group's

- external auditor until July 2018 and Ernst & Young LLP subsequently;
- the review and approval of the external auditor's fees for 2018, including the review of the policy for the provision of non-audit fees by the auditor;
- the review and approval of the external auditor's plan for 2018, which detailed the proposed audit scope and risk and governance assessment; and
- the arrangements in respect of internal audit, including a recommendation to the Board that, due to the current size and complexity of the Group, a formal internal audit function was not required at this time.

Given the nature of the Company's business, the Audit Committee pays particularly close attention to reviewing (directly and in discussion with the external auditors) management's judgements on the application of SCISYS' revenue-recognition policies in relation to material projects.

FINANCIAL REPORTING

During the year, the Audit Committee reviewed and recommended approval of the half-year and full-year financial statements. As part of its review, the Audit Committee considered the key judgements and accounting policies applied and the basis for estimates and assumptions underlying the financial statements.

The Audit Committee recognises the importance of understanding changes in accounting policies and practice, and receives regular updates from both the external auditors, and the Company's finance team on key changes in this area. The Audit Committee continued its review of the impact on the Group of the implementation of IFRS 15 concerning revenue recognition, IFRS 9 concerning financial instruments and IFRS 16 concerning leases.

During the year, the Audit Committee, management and the external auditors considered and concluded on a number of significant matters in relation to the financial statements. Those matters and what the Committee did to ensure that these matters had been appropriately addressed in the financial statements are set out below:

Area of focus	How the matter was addressed by the Audit Committee
Revenue recognition and contract accounting	The Audit Committee reviewed the controls in place to ensure the appropriateness of estimates used in assessing contractual stages of completion, anticipated profitability and the amounts recognised in the financial statements. The Audit Committee agreed with the conclusions reached.
Goodwill impairment review	The Audit Committee reviewed a management report outlining the approach taken on impairment testing and the key assumptions and sensitivities supporting the conclusions. The Audit Committee agreed with the conclusions reached on impairment.
Recoverability of the Company's investment in and intercompany balances with subsidiaries	The Audit Committee reviewed the assessment by management of the carrying value of the Company's investment in subsidiaries, and intercompany balances with them, using the value-in-use model used in supporting the carrying value of goodwill. The Audit Committee agreed with the conclusions reached.
Re-structuring of Group with the insertion of a new Irish parent company	The Audit Committee reviewed the assessment of external tax advisors in the Scheme of Arrangement tax statements and agreed with the conclusions reached.

RISK MANAGEMENT AND INTERNAL CONTROL

The Audit Committee also has responsibility for reporting to the Board on whether the Group's key control policies and procedures remain appropriate and that it is operating a robust and effective control environment.

RISK MANAGEMENT

The Audit Committee, on behalf of the Board, ensures that the Group's principal risks and uncertainties have been appropriately identified and assessed. It reviews those key risks and the quality of the assurance on the effectiveness of the controls that mitigate those risks, allowing it to conclude on the principal risks for disclosure in the Annual Report.

EFFECTIVE INTERNAL CONTROL

Operating policies, procedures and controls are in place across the Group, and have been in place throughout the year under review. These policies ensure the accuracy and reliability of financial reporting and the preparation of financial statements including the consolidation process.

The controls relating to financial reporting include:

- An appropriately qualified management structure, with clear lines of responsibility.
- A comprehensive annual budgeting process, which is approved by the Board.
- Close management of the day-to-day activities of the Group by the Chief Executive Officer and Finance Director.
- Detailed monthly reporting of performance against budget and forecast.
- Central control over key areas such as contract risk assessment, capital expenditure authorisation and banking facilities.

Details of the system of internal control, the principal risks facing the

Group, and the strategies put in place to mitigate them, are set out in the Risk Management section on pages 32 to 35.

EXTERNAL AUDIT

The Audit Committee has responsibility to ensure that there is a sufficiently robust and effective external audit through considering the independence of the external auditor, the appointment and reappointment of the external auditor and all reports from the external auditor.

APPOINTMENT OF THE EXTERNAL AUDITOR

The Audit Committee reviews and makes recommendations regarding the appointment and reappointment of the external auditors. In making this recommendation, the Audit Committee considers the auditors' effectiveness and independence, and any other factors which may impact upon reappointment.

Following a thorough competitive audit tender process during the year, the Audit Committee made a recommendation to the Board, who endorsed the appointment of Ernst & Young LLP as the Company's new auditors, with effect from October 2018. A resolution authorising the Directors to fix the auditors' remuneration will be proposed at the forthcoming AGM.

AUDIT INDEPENDENCE

The Audit Committee and the Board place great emphasis on the objectivity of the external auditor in its reporting to shareholders. The audit partner and senior manager are present at Audit Committee meetings as required to ensure full communication of matters relating to the audit. The overall performance of the auditor is reviewed annually by the Audit Committee, taking into account the views of management, and feedback is provided when necessary to senior members of the audit firm unrelated to the audit. The Audit Committee also has discussions with the auditors, without management being present, on the adequacy of controls and on any judgemental areas. The scope of the forthcoming year's audit is discussed in advance by the Audit Committee. In respect of 2018, this has involved the need for compliance with IFRS 15. Preparations in this regard were ongoing throughout 2018. Audit fees are approved in advance by the Audit Committee.

SCISYS' policy on engaging the external auditors for non-audit services is designed to ensure: that such engagements do not result in the creation of a mutuality of interest between the auditor and the Group; that a transparent process and reporting structure is established to enable the Audit Committee to monitor policy compliance; and that unnecessary restrictions on the engagement of the auditors for non-audit services are avoided where the provision of such advice is commercially sensible and is more cost effective than other providers.

The auditors provide annually a letter to the Audit Committee confirming their independence and stating the methods they employ to safeguard their independence. ●

David Coghlan

Chairman of the Audit Committee
10 April 2019