

Audit Committee report

Audit Committee

The Committee has written terms of reference, which are available to view on the Company's website www.gammacommunicationsplc.com. The terms of reference clearly define the Committee's responsibilities and duties and were reviewed by the Board during 2021 and updated accordingly. In addition to the Terms of Reference, the Committee has developed an annual agenda which corresponds with the meeting schedule, to ensure all key responsibilities are completed and managed.

Composition and attendance in 2021

The Committee members are Charlotta Ginman (Chair), Henrietta Marsh and Wu Long Peng. Alan Gibbins retired from the Board at the 2021 AGM at which point Charlotta Ginman took over the chairing of the Audit Committee. The Audit Committee, as a whole, has competence relevant to the industry and both Charlotta Ginman and Wu Long Peng have recent and relevant financial and accounting experience. More information about the Committee members can be found on pages 50 and 51. The Committee met four times during the financial year with all members in attendance at each meeting.

The meetings have been a mix of physical and remote attendance, adapting and changing to pandemic guidelines, working effectively in both scenarios.

Meetings attended:

Charlotta Ginman (Chair)	4/4
Alan Gibbins ¹	1/1
Henrietta Marsh	4/4
Wu Long Peng	4/4

¹ Alan Gibbins left the Committee at the time he stood down from the Board at the AGM on 20 May 2021.

Dear Shareholder,

I am pleased to present what is my first Gamma Audit Committee report for the year ended 31 December 2021, having taken over the role as Chair in May 2021. This report details the work of the Committee over the past year, fulfilling our responsibilities to provide effective governance over the Group's financial activities.

Significant issues considered by the Audit Committee during the year

Key reporting issues

During the year and as part of the year end procedures, the Committee considered the following key financial matters in relation to the Group's financial statements and disclosures with input from both management and the external auditor:

- Revenue recognition – The Audit Committee had a deep dive session during the year with the Finance team, in an effort to better understand in particular the revenue recognition practices around accuracy of volume, timing and pricing as well as definitions used in the Group's revenue recognition work.

The Audit Committee considered the information presented and are happy with the treatment.

- Impairment Assessment – At the Audit Committee meeting in September, management presented its annual impairment assessment work. The Audit Committee challenged the calculations used, including country specific discount rates. An update of the work was presented again to the Audit Committee at the February meeting at which point the Audit Committee agreed with the underlying assumptions used and management's assessment.
- Business combinations – During the year the Audit Committee reviewed the disclosures in relation to the Mission Labs acquisition including the applied purchase price allocation and concluded that the Committee agreed with management's treatment of the same.

Furthermore we also spent time talking about management estimates and judgements in connection with bad debt provisioning (IFRS 9), the accounting treatment of minority interests (HFO put option) as well as going concern. We also reviewed issues in relation to taxation and treasury and cash generating unit groupings.

Internal Audit

Gamma's outsourced Internal Auditor, PWC, completed their first full year in accordance with the plan as laid out in 2020. The activities of the internal audit function are governed by an Internal Audit Charter. During the year, the Audit Committee received updates on the results of the internal audit work for the following areas:

- The governance control framework in the UK Direct Business
- Post acquisition key controls reviews for entities in Spain and Germany
- UK Indirect revenue and billing assurance

The work did not reveal any significant failings in financial reporting controls but did result in some action plans, with improved processes and controls now being implemented by management to enhance the control environment in each area.

The Audit Committee approved the internal audit plan for 2022, which will focus on the following key financial processes:

- Cost of Sales for UK Indirect Business – Voice
- IT General Controls for revenue in the UK Indirect Business
- Cyber incident simulation review

The PWC team is headed up by P-O Ahlstrom, who attends all Audit Committee meetings and with whom I also meet separately on a regular basis.

Internal Control Framework

Following rapid expansion and a number of acquisitions both in the UK and Europe during the last few years, and in wake of the outcome of the BEIS consultation, Gamma is in the process of designing and documenting a Group-wide fit for purpose internal control framework that can be utilised both internally, as well as by the internal and external auditors going forward.

At the year-end Audit Committee meeting, management presented a "Management Fraud Assurance" report outlining the fraud risk areas, the relevant controls in place for the various processes and business practices adopted for fraud detection and monitoring. The Audit Committee found this statement useful and reassuring.

Annual Report and Financial Statements

The Board has asked the Committee to confirm that in its opinion the Annual Report as a whole can be taken as fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's financial position, performance, business model and strategy. In doing so the Committee has given consideration to:

- The way the Strategic Report (including the Chair's statement and reports of the CEO and CFO) presents the Group and its business, financial and business model and the metrics management uses to measure performance.
- Whether suitable accounting policies have been adopted and have challenged the robustness of significant management judgements and estimates reflected in the financial results.
- The comprehensive control framework around the production of the Annual Report, including the verification processes in place to deal with the factual content.
- The extensive levels of review that are undertaken in the production process, by both management and advisers.
- The Group's internal control environment.

The Group uses certain APMs to present its results, that are also used by management in running the business. These are non-GAAP measures but are designed to provide the users of the financial statements with additional useful information on the ongoing trading performance of the business. An explanation of the APMs and a reconciliation to the nearest statutory equivalent measure is provided on page 34.

As a result of the work performed, the Committee has concluded that the Annual Report for the year ended 31 December 2021, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, and it has reported on these findings to the Board.

Group policies

The following Group policies were formalised by the Audit Committee during the year:

- Non-audit services policy
- Employment of former auditor's policy

Furthermore, the Audit Committee reviewed and reapproved the Group wide Treasury Policy during the year.

External Audit Audit services

The auditor is appointed by the shareholders to provide an opinion on financial statements prepared by the Directors. Deloitte LLP, the Company's current auditor, were appointed for the first time for the year ending 31 December 2015. The year ending 31 December 2021 is the second year for Mark Tolley to act as lead partner,

with the previous lead partner Andrew Bond having stepped down in 2020. In accordance with the FRC's ethical guidelines, it is anticipated that the audit will be put out to tender latest during 2024.

The scope of the current annual audit was agreed in advance with the Committee with a focus on areas of significant audit risk and the appropriate level of audit materiality. The Committee also had discussions with the auditor on fees, internal controls over indirect revenues, accounting policies and areas of critical accounting estimates and judgements. The auditor attends all meetings of the Audit Committee and reported to the Audit Committee on the results of the audit work and highlighted any issue which the audit work had discovered, or the Committee had previously identified as significant or material in the context of the financial statements.

There were no adverse matters brought to the Audit Committee's attention in respect of the 2021 audit, which were material and should be brought to shareholders' attention.

Effectiveness

The Audit Committee monitored and evaluated the effectiveness of the auditor under the current terms of appointment based on an assessment of the auditor's performance, qualification, knowledge, expertise, results of regulatory reviews and deployed resources and in light of the ongoing COVID-19 restrictions. The auditor's effectiveness was also considered along with other factors such as audit planning and interpretations of accounting standards and separate discussions with Management (without the auditor present) and with the auditor (without Management present). As Chair of the Committee, I also had discussions with the audit partner outside the formal meetings throughout the year.

The Committee was satisfied that the audit was effective and that Deloitte continues to demonstrate the skills and experience needed to fulfil its duties effectively.

Independence and non-audit fees

A non-audit services policy was formalised during the year, in line with the FRC ethical standards. Any non-audit services are required to be pre-approved by the Audit Committee. During the year Deloitte provided non-audit services to the Company of £51k (2020: £48k) in relation to the performed interim reporting review.

In order to fulfil the Committee's responsibility regarding independence of the auditor, the Committee reviewed the senior staffing of the audit, the auditor's arrangements concerning any conflicts of interest, the extent of any non-audit services, the fact that no former external auditors have been employed in the business, and the auditor's independence statement. The Committee was satisfied that the auditor remains independent.

For the financial year ending 31 December 2022, the Committee has recommended to the Board that Deloitte LLP be reappointed as auditor and the Board will be proposing their reappointment at the AGM.

Charlotta Ginman, FCA

Chair of the Audit Committee

21 March 2022