

## MERCIA ASSET MANAGEMENT PLC

### TERMS OF REFERENCE OF THE AUDIT AND RISK COMMITTEE

Adopted by resolution of the Committee on 26 November 2018

#### 1 DEFINITIONS

In this document:-

- (a) reference to the "**Board**" shall mean the Board of Directors of the Company;
- (b) reference to the "**Chairman**" shall mean the chairman of the Board;
- (c) reference to the "**Committee**" shall mean the Audit Committee of the Board; and
- (d) reference to the "**Committee Chair**" shall mean the member appointed as the chairman of the Committee; and
- (e) reference to the "**Company**" shall mean Mercia Asset Management PLC and shall include its subsidiary companies.

#### 2 MEMBERS

The members of the Committee for the time being shall be:

- Dr Jonathan Pell (Committee Chair);
- Ian Metcalfe; and
- Caroline Plumb

#### 3 PURPOSE

The Committee is appointed by the Board to assist the Board in fulfilling its obligations relating to the integrity of the internal financial controls and financial reporting of the Company including in relation to standards set by the Financial Reporting Council for Client Assets ("CASS") audit purposes.

#### 4 MEMBERSHIP

- 4.1 The Committee shall be made up of at least two (2) members. Members of the Committee shall be appointed by the Board on the recommendation of the nominations committee in consultation with the Committee Chair.
- 4.2 All members of the Committee shall be non-executive directors at least one of whom shall have recent and relevant financial experience and with competence in accounting and/or auditing.
- 4.3 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman, Chief Executive Officer, Chief Financial Officer, other directors, the Compliance Director and representatives from the finance, risk and compliance functions and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 4.4 The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 4.5 Appointments to the Committee shall be for a period of up to three years, which may be extended for further periods of up to three (3) years, provided the director still meets the criteria for membership of the Committee. The Board may fill vacancies in the Committee by appointment from amongst the Board.
- 4.6 The Board shall appoint the Committee Chair from among the members of the Committee who shall be an independent non-executive director. 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.

## **5 SECRETARY**

The Company secretary, or his or her nominee, shall act as the secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to all issues.

## **6 MEETINGS AND QUORUM**

- 6.1 The quorum necessary for the transaction of business shall be two (2) members, one of which shall be the Committee chair and shall hold a casting vote. 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.
- 6.2 Members may participate in a meeting of the Committee by means of conference telephone or other communication equipment, which may be recorded.
- 6.3 Any matter to be determined by the Committee shall be decided by a majority of the votes cast at a meeting of the Committee called for such purpose. Any action of the Committee may also be taken by an instrument or instruments in writing signed by all of the members of the Committee (including in counterparts) and any such action shall be as effective as if it had been decided by a majority of the votes cast at a meeting of the Committee called for such purpose.

## **7 FREQUENCY OF MEETINGS**

- 7.1 The Committee shall meet at least three times a year at appropriate times in the financial reporting and audit cycle and otherwise as required.
- 7.2 Outside of the formal meeting programme, the Committee Chair, and where appropriate in consultation with the Committee Chair, the other Committee members, will maintain a dialogue with key individuals involved in the Company's governance, including the Chairman, the Chief Executive Officer, the Chief Financial Officer, the Compliance Director, and representatives from the finance, risk and compliance functions of the Company.

## **8 NOTICE OF MEETINGS**

- 8.1 Meetings of the Committee shall be called 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.
- 8.2 Unless otherwise agreed by consent of all members of the Committee in writing, 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 to attend and all other non-executive directors, 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.
- 8.3 Notices, agenda and supporting papers can be sent in electronic form where the recipient has agreed to receive documents in such a way.

## **9 MINUTES OF MEETINGS**

- 9.1 The secretary of the Committee shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 9.2 The secretary of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 9.3 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, Committee meeting minutes should be circulated to all members of the Committee and the Board unless it would be inappropriate to do so.

## **10 ANNUAL GENERAL MEETING**

The Committee Chair shall attend the annual general meeting of the Company prepared to respond to any shareholder questions on the Committee's activities.

## **11 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, significant and FCA regulated subsidiary undertakings and the group as a whole.

- 11.1 Financial Reporting

11.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, interim management statements, preliminary announcements and any other formal announcement 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 external auditor. The Committee shall also 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.

11.1.2 In particular, the Committee shall review and challenge where necessary:

11.1.2.1 the application of, consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/group;

11.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;

11.1.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

11.1.2.4 the clarity of disclosure in the Company's financial reports and the context in which statements are made; and

11.1.2.5 all material information presented with the financial statements, such as the strategic report, the financial review and the corporate governance statements relating to the audit and to risk management.

11.1.3 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.

## 11.2 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, appropriately addresses the principal risks and uncertainties, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy and whether it informs the Board's statement in the annual report on these matters.

## 11.3 Internal Controls and Risk Management Systems

The Committee shall:

11.3.1 keep under review the adequacy and effectiveness of the Company's internal financial control systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems, and monitoring the proper implementation of such controls; and

- 11.3.2 review and approve the statements to be included in the annual report concerning internal controls and risk management.

#### 11.4 Oversight of Compliance function, whistleblowing and fraud

The Committee shall:

- 11.4.1 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. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- 11.4.2 review the Company's procedures for detecting fraud;
- 11.4.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;
- 11.4.4 review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the company's anti-money laundering systems and controls; and
- 11.4.5 review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the company's compliance function, internal monitoring and external reviews undertaken and actions identified;
- 11.4.6 review the Company's compliance with the rules and regulations applicable to its FCA-regulated subsidiaries and, in particular, to keep under review the risk and control framework in relation to compliance with Client Assets rules ("CASS");
- 11.4.7 monitor and review the effectiveness of the Company's risk and compliance function in the context of the Company's overall risk management system and the work of compliance, finance and the external auditor;
- 11.4.8 consider and approve the remit of the risk and compliance 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;
- 11.4.9 ensure the risk and compliance function has unrestricted scope, the necessary resources and access to information required, ensure there is open communication between different functions and that there is adequate oversight of the effectiveness of these functions;
- 11.4.10 ensure the Compliance Director has direct access to the Chairman and to the Committee Chair, providing independence from the Board and accountability to the Committee;
- 11.4.11 review and approve the annual risk and compliance plans to ensure they are aligned to the key risks of the business, and receive regular reports on work carried out;

11.4.12 carry out an annual assessment of the effectiveness of the compliance function and review the results of the compliance monitoring work undertaken.

11.4.13 consider whether an independent, third party review of processes is appropriate.

## 11.5 External Audit

The Committee shall:-

11.5.1 consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting of shareholders, in relation to the appointment, re-appointment and removal of the Company's external auditor.

11.5.2 oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;

11.5.3 ensure that at least once every 10 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 external auditor with those of other audit firms; and in respect of such tender oversee and develop the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process;

11.5.4 oversee the relationship with the external auditor including (but not limited to):

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

11.5.4.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

11.5.4.3 assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;

11.5.4.4 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;

11.5.4.5 reviewing and agreeing with the Board the Company's hiring policy regarding partners, employees and former partners and employees of the present and any former auditor, then monitoring the implementation of this policy;

11.5.4.6 monitoring the auditor's compliance with relevant 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;

- 11.5.4.7 assessing annually their qualifications, expertise and resources, and independence 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;
- 11.5.4.8 seeking to ensure co-ordination of the external audit with the activities of the internal audit function;
- 11.5.4.9 evaluating the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee and consideration of the need to include the risk of the withdrawal of the Company's external auditor from the market in that evaluation; and
- 11.5.4.10 developing and recommending to the Board the Company's formal policy on the provision of non-audit services by the auditor, including 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:
  - (A) threats to the independence and objectivity of the external auditor and any safeguards in place;
  - (B) the nature of the non-audit services;
  - (C) whether the external audit firm is the most suitable supplier of the non-audit services;
  - (D) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
  - (E) the criteria governing compensation.
- 11.5.5 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 the external auditor's remit and any issues arising from the audit;
- 11.5.6 discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team; and
- 11.5.7 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:

- 11.5.7.1 a discussion of any major issues which arose during the audit;
- 11.5.7.2 the auditor's explanation of how the risks to audit quality were addressed;
- 11.5.7.3 the auditor's view of their interactions with senior management;
- 11.5.7.4 any accounting and audit judgements; and
- 11.5.7.5 levels of errors identified during the audit.

The Committee shall also:

- 11.5.8 review the effectiveness of the audit, 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;
- 11.5.9 review any representation letter(s) requested by the external auditor before they are signed by management; and
- 11.5.10 review the management letter and management's response to the auditor's findings and recommendations.

## 11.6 Reporting Responsibilities

- 11.6.1 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. The Committee Chair shall also report to the Board on how it has discharged its responsibilities, as set out herein.
- 11.6.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 11.6.3 The Committee shall compile a report to shareholders on its activities to be included in the Company's Annual Report. The report should include an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the external auditor; and all other information requirements set out in the Quoted Companies Alliance (QCA) Corporate Governance Code for Small and Mid-size Quoted Companies (the "**QCA Code**").
- 11.6.4 In compiling the reports referred to above, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

## 11.7 Other Matters

The Committee shall:

- 11.7.1 have access to sufficient resources in order to carry out its duties, including access to the Company's secretary for assistance as required;
- 11.7.2 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;
- 11.7.3 at all times give due consideration to laws and regulations, the provisions of and recommendations in the QCA Code, the requirements of the AIM Rules for Companies (including the Note for Investing Companies) and the UK Listing Authority's Prospectus Rules and Disclosure Guidance and Transparency Rules and any other applicable rules (as appropriate);
- 11.7.4 be responsible for co-ordination of the internal and external auditors;
- 11.7.5 oversee any investigation of activities which are within its terms of reference;
- 11.7.6 arrange for periodic review of its own performance and, at least annually, review its 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
- 11.7.7 work and liaise as necessary with all other Board committees.

## **12 AUTHORITY**

The Committee is authorised:

- 12.1 to seek any information it requires from any employee of the Company in order to perform its duties;
- 12.2 to obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference;
- 12.3 to call any employee to be questioned at a meeting of the Committee as and when required; and
- 12.4 to 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.