

DATED

28 NOVEMBER 2018

FINNCAP GROUP PLC

AUDIT COMMITTEE – TERMS OF REFERENCE

FINNCAP GROUP PLC (THE "COMPANY")

AUDIT COMMITTEE - TERMS OF REFERENCE

CONSTITUTION

1. The members of the Audit Committee for the time being shall be:

Barbara Firth (Chairman)

Andy Hogarth
2. The Audit Committee (the "**Committee**") shall consist of a minimum of two members appointed by the Board of the Company (the "**Board**") on the recommendation of the Nomination Committee and in consultation with the Chairman of the Committee, membership being confined to non-executive directors. The Chairman of the Committee, who shall be an independent non-executive director, shall be appointed by the Board on the recommendation of the Nomination Committee which shall determine the period for which he/she shall hold office. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting. The Chairman of the Board shall not be eligible to be appointed as Chairman of the Committee.
3. Appointments to the Committee shall be for a period for up to three years, which may be extended by no more than two further three-year periods, provided the members continue to be independent.
4. The Financial Director 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 issues.
5. At least one member of the Committee should have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies. The Committee as a whole should have competence relevant to the sector in which the Company operates.
6. The quorum for decisions of the Committee shall be any two members.

ROLE

7. The Committee should carry out the duties below for the Company, major subsidiary undertakings and the Group as a whole, as appropriate.

7.1 **Financial reporting**

- 7.1.1 The Committee shall monitor the integrity of the financial statements of the Company and the Group including its annual and half-yearly reports, interim management statements, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing

significant financial reporting issues and judgements which they 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.

7.1.2 The Committee shall review and challenge where necessary:

- (a) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/Group;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
- (c) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (d) the clarity of disclosure in the Company's financial reports and the context in which statements are made; and
- (e) all material information presented with the financial statements, such as the strategic report and the corporate governance statement (insofar as it relates to the audit and risk management).

7.1.3 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.

7.2 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 and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

7.3 Internal financial controls and risk management systems

The Committee shall:

- 7.3.1** keep under review the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems, including reviewing, on an annual basis, whether there is a need for a separate internal audit function and assurance of the quality of the internal procedures in place at that time;
- 7.3.2** where requested by the Board, ensure that a robust assessment of the principal risks facing the Company has been undertaken (including those risks that would threaten its business model, future performance, solvency or

liquidity) and provide advice on the management and mitigation of those risks; and

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

7.4 Compliance, whistleblowing and fraud

The Committee shall:

- 7.4.1** review the adequacy and security of the Group's arrangements for its employees 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;
- 7.4.2** review the Group's procedures for detecting fraud;
- 7.4.3** review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;
- 7.4.4** review regular reports from the Money Laundering Reporting Officer and keep under review the adequacy and effectiveness of the Group's anti-money laundering systems and controls; and
- 7.4.5** review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Group's compliance function.

7.5 Internal audit

The Committee shall:

- 7.5.1** monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- 7.5.2** approve the appointment and removal of the head of the internal audit function;
- 7.5.3** consider and approve the remit of the internal audit 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. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- 7.5.4** ensure the internal auditor has direct access to the Chairman of the Board and to the Committee Chairman, and is accountable to the Committee;
- 7.5.5** review and assess the annual internal audit workplan;

- 7.5.6** review promptly all reports on the Group from the internal auditors on a periodic basis;
- 7.5.7** review and monitor management's responsiveness to the findings and recommendations of the internal auditor;
- 7.5.8** meet the head of internal audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the Chairman of the Board and to the Committee; and
- 7.5.9** monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system.

7.6 External Audit

The Committee shall:

- 7.6.1** consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting, about the appointment, re-appointment and removal of the Company's external auditor. The Committee shall develop and oversee the selection process for a new external auditor and if an external auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- 7.6.2** ensure compliance with any applicable requirements as to audit tendering and, in any event, ensure that at least once every ten years consideration is given to putting the audit services contract 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 any 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;
- 7.6.3** review the effectiveness of the external audit process;
- 7.6.4** oversee the relationship with the external auditor including (but not limited to):
 - (a) approval of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
 - (b) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (c) assessing annually their independence and objectivity taking into account relevant UK law, professional and regulatory requirements

and the relationship with the auditor as a whole, including the provision of any non-audit services;

- (d) 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);
- (e) agreeing with the Board a policy on the employment of former employees of the Company's external auditor, then monitoring the implementation of this policy;
- (f) monitoring the external auditor's compliance with the 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;
- (g) assessing annually the qualifications, expertise and resources 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;
- (h) evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their external auditor from the market in that evaluation.

7.6.5 meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage;

7.6.6 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;

7.6.7 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:

- (a) a discussion of any major issues which arose during the audit;
- (b) any accounting and audit judgements;
- (c) the auditor's explanation of how the risks to audit quality were addressed;
- (d) the auditor's view of their interactions with senior management;
- (e) levels of errors identified during the audit; and
- (f) the effectiveness of the audit process.

- 7.6.8** The Committee shall also:
- (a) review any representation letter(s) requested by the external auditor before they are signed;
 - (b) review the management letter and management's response to the external auditor's findings and recommendations; and
 - (c) develop and implement a policy on the supply of non-audit services by the external auditor, ensuring there is prior approval of non-audit services considering the impact this may have on independence taking into account any relevant ethical guidance on the matter.

7.7 Reporting Responsibilities

- 7.7.1** All proceedings of the Committee shall be reported formally to the Board by the Committee Chairman.
- 7.7.2** The Committee Chairman 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 (required under paragraph 7.1.1) and how these were addressed;
 - (b) its assessment of the effectiveness of the external audit process (required under paragraph 7.6.3(g) and its recommendation on the appointment or reappointment of the external auditor;
 - (c) its recommendation of any improvement or action required in relation to the supply of non-audit services; and
 - (d) any other issues on which the Board has requested the Committee's opinion.
- 7.7.3** The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 7.7.4** The Committee shall compile a report 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 (the "**QCA Code**").

7.7.5 In the compiling the reports referred to in 7.7.2 and 7.7.4, 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.

7.8 Other matters

7.8.1 The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company 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 ongoing basis for all members;
- (c) give due consideration to laws and regulations, the provisions of the QCA Code, the QCA's Audit Committee Guide for Small and Mid-Size Quoted Companies, the AIM Rules for Companies and the requirements of the Financial Conduct Authority's Prospectus and Disclosure Guidance and Transparency Rules as appropriate;
- (d) be responsible for co-ordination of the external auditors; and
- (e) oversee any investigation of activities which are within its terms of reference; and
- (f) work and liaise as necessary with all other Board committees.

PROCEDURE

- 8.** The Company's external auditors and the Chief Executive or Chief Financial Officer may attend and speak at meetings of the Committee at the invitation of the Committee. At least once each year representatives of the Company's external auditors shall meet the Committee without any executive directors being present, to discuss the external auditor's remit and any issues arising from the audit.
- 9.** The Committee shall meet at least three times each year and at such other times as the Chairman of the Committee shall require.
- 10.** Outside of the formal meeting programmes, the Chairman of the Committee will maintain a dialogue with key individuals involved in the Company's governance, including the Board Chairman, the Chief Executive, the Chief Financial Officer, the Chief Commercial Officer, the Head of Corporate and the external audit lead partner.
- 11.** The Company's external auditor may request a meeting if they consider it necessary. Meetings may also be called by the Secretary of the Committee at the request of any member of the Committee.
- 12.** At least 5 working days' notice of any meeting of the Committee shall be given, although such notice period may be waived or shortened with the consent in writing of all the members of the Committee for the time being. Notice of the meeting shall confirm the venue, time and date together with an agenda of items to be discussed. Notice shall be sent to each member of the Committee, any other person required to attend and all other non-executive directors. Supporting papers shall be sent to Committee members and to other attendees as appropriate at the same time.
- 13.** A decision is taken at a meeting of the Committee by a majority of the votes of the members of the Committee who are participating in the meeting, with each participating member having one vote. If there is an equality of votes, the chairman of the Committee (or other person chairing the meeting) has a casting vote.
- 14.** Each member of the Committee must, at or prior to the commencement of each meeting, disclose to the Committee any interest that he/she has in any matter or proposal to be considered at the meeting. A member of the Committee must not participate in any discussions concerning, and is not entitled to vote in relation to, any matter or proposal to be considered at a meeting in which he/she has a direct or indirect interest unless that interest cannot reasonably be regarded as likely to give rise to a conflict of interest.
- 15.** The Secretary shall minute the proceedings and discussions of all meetings of the Committee, including recording the names of those present and in attendance.
- 16.** The minutes of the meeting of the Committee shall be circulated to all members of the Committee and, once agreed, to the Board unless it would be inappropriate to do so in the opinion of the Committee Chairman.

- 17.** A member of the Committee shall attend the Company's Annual General Meeting prepared to respond to any shareholder questions on the Committee and its activities and responsibilities.
- 18.** The Committee is authorised:
 - 18.1** to investigate any activity within its terms of reference and seek directly any information it requires from any employee or contractor of the Company (all such persons being directed to co-operate with any such request by the Committee);
 - 18.2** to obtain outside legal or other independent professional advice at the cost of the Company to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary (but such persons shall not be members of the Committee); and
 - 18.3** to call any employee to be questioned at a meeting of the Committee as and when required.
- 19.** The Committee shall conduct an annual review of its work, constitution, performance and these terms of reference to ensure it is operating at maximum effectiveness and shall make recommendations for any changes to the Board.
- 20.** References in these terms of reference to the "Group" mean the Company, its subsidiaries and its subsidiary undertakings.

28 November 2018