

## Audit Committee

### Terms of Reference

Throughout this document, references to:

- the “**Board**” means the board of directors of Charter Court Financial Services Group plc (the “**Company**”);
- the “**Chairman**” means the chairman of the Board;
- the “**Group**” means the Company and all of its subsidiary companies (a “**Group Company**”) which may exist from time to time; and
- “**Employee**” means an employee of the Company or any Group Company.

#### 1. Constitution

- 1.1 Members of the Audit Committee (the “**Committee**”) shall be appointed by the Board on the recommendation of the Group Nominations Committee after consultation with the Committee chairperson (the “**Chairperson**”), and shall comprise no less than three members. Membership shall include at least one member of the Board Risk Committee.
- 1.2 All members of the Committee shall be independent non executive directors at least one of whom shall have recent and relevant financial experience and with competence in accounting and/or auditing. The chairman of the Board shall not be a member of the Committee but he and other non executive directors may attend meetings.
- 1.3 The Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, the external auditor, and head of internal audit or an external party carrying out the internal audit function shall be required to attend Committee meetings as a matter of course. A nominee may instead attend subject to the prior approval of the Chairperson.
- 1.4 Only members of the Committee have the right to attend Committee meetings. However, other individuals (in addition to those referred to in 1.3 above), including the Chief Operating Officer and Managing Director, may be invited to attend meetings of the Committee on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 1.5 The Board shall appoint the Chairperson. In the absence of the Chairperson and/or an appointed deputy, the remaining members present shall appoint one of their number to chair the meeting.

#### 2. Purpose

- 2.1 To assist the board of directors in fulfilling its oversight responsibilities for (1) the integrity of the Company’s financial reporting, (2) the Company’s compliance with legal and regulatory requirements, (3) the independent auditor’s qualifications and independence, and (4) the performance and independence of the Company’s internal audit function.
- 2.2 To oversee, review and advise the Board on the adequacy and effectiveness of internal controls and accounting procedures, ensuring that appropriate levels of external and internal audit are maintained.
- 2.3 To assist the Board in ensuring that an adequate and effective internal control system is established and maintained to provide assurance of reporting (financial, operational, risk), monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations and safeguarding of assets.

#### 3. Membership

- 3.1 The members of the Committee are:

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Rajan Kapoor	Independent Non Executive Director/ Chairperson
Ian Ward	Independent Non Executive Director
Tim Brooke	Independent Non Executive Director

### **4. Secretary**

- 4.1 The company secretary or his/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. Quorum**

- 5.1 The quorum necessary for the transaction of business shall be two members, one of whom must have competence in accounting and/or auditing. The Chairperson shall have the casting vote.

### **6. Frequency of Meetings**

- 6.1 Meetings will be held not less than four times a year. Meetings will be scheduled to coincide with key dates within the financial reporting and audit cycle, and otherwise as required.
- 6.2 Outside of the formal meeting programme, the Chairperson will maintain a dialogue with key individuals involved in the Company's governance, including the chairman of the Board, the Chair of the Board Risk Committee, the Chair of the Remuneration Committee, the Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer, the external audit lead partner and the head of internal audit (or an external party carrying out the internal audit function).
- 6.3 Immediately prior to each meeting attended by external and internal audit, there will be a private session between them and the members of the Committee.

### **7. Notice of Meetings**

- 7.1 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 the Chief Financial Officer, external audit lead partner or head of internal audit (or an external party carrying out the internal audit function).
- 7.2 Unless otherwise agreed, 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, and any other person required to attend, 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. Minutes of Meetings**

- 8.1 The secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and those in attendance.
- 8.2 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, the minutes should be circulated to all other members of the Board unless it would be inappropriate to do so in the opinion of the Chairperson.
- 8.3 Final signed copies of the minutes of the meetings of the Committee should be maintained for the company's records, in hard and soft copy where possible.

## **9. Annual general meeting**

- 9.1 The Chairperson is required to attend the annual general meeting and may be invited to answer shareholder questions.

## **10. Duties**

The Committee has oversight of the Group as a whole and, unless indicated or required otherwise by regulation, carry out the duties below for the Company and each Group Company. The Committee's authority and duties in these terms of reference extend to all relevant matters concerning the Group, including relevant outsourcing arrangements.

### **Financial Reporting**

- 10.1 The Committee shall monitor the integrity of the financial statements of the Group, including annual and half-yearly reports, interim management statements, preliminary results announcements and any other formal announcement relating to financial performance and conditions, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain, having regard to matters communicated to it by the external auditor.
- 10.2 In particular, the Committee shall review and challenge where necessary:
- 10.2.1 the consistency of, and the application of, significant accounting policies both on a year on year basis and across the Group. Any changes to accounting policies or any new accounting policies must be approved by the Committee;
  - 10.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
  - 10.2.3 whether the Group has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - 10.2.4 the clarity and completeness of disclosures in the Group's financial reports and the context in which statements are made;
  - 10.2.4 all material information presented with the annual financial statements, such as the strategic report and the corporate governance statements relating to the audit and to risk management.
- 10.3 The Committee shall review any other statements requiring board approval which contain financial information first, where to carry out a proper review prior to Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules or Disclosure Guidance and Transparency Rules sourcebook. If because of tight deadlines this is not practicable the Chairperson shall review such statements prior to Board approval.
- 10.4 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.
- 10.5 The Committee shall review and approve the specific disclosures required under Articles 453(e) and (f) of the Capital Requirements Regulation (EU Regulation 575/2013) on behalf of the Board and the board of directors of any Group Company.
- 10.6 The Committee shall keep under review the Group's disclosure controls and procedures, including reviewing reports of the Group's Disclosure Committee.

### **Narrative reporting**

- 10.7 The Committee should review the content of the annual report and accounts and half-yearly reports and advise the Board on whether, taken as a whole, it is fair, balanced and

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understandable 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 that is required under the Code.

### **Internal controls and risk management systems**

- 10.8 The Committee shall:
- 10.8.1 keep under review the Group's internal financial control systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems; and
  - 10.8.2 in conjunction with the Board Risk Committee, review and approve the statements to be included in the annual report concerning internal control, risk management and the viability statement.
- 10.9 The Committee shall oversee, challenge and monitor the implementation of any new financial reporting standards issued by the International Accounting Standards Board.
- 10.10 The Committee shall periodically review the arrangements to produce the Group's resolution pack and the recovery plan.

### **Whistleblowing and Fraud**

- 10.11 The Committee shall:
- 10.11.1 review the adequacy and security of the Group's arrangements for Employees and contractors engaged to supply services which enable them to raise any 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;
  - 10.11.2 review the Group's procedures for detecting fraud;
  - 10.11.3 review the Group's systems and controls for the prevention of bribery and receive reports on non-compliance; and
  - 10.11.4 review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the Group's anti-money laundering systems and controls.

### **Internal Audit**

- 10.12 The Committee shall:
- 10.12.1 approve the appointment or termination of appointment of the head of internal audit (or an external party carrying out the internal audit function), and ensure that the relevant supervisory authority is immediately informed of any changes;
  - 10.12.2 review and approve the charter of the internal audit function (or outsourced internal audit function) ensuring it is appropriate for the current needs of the Group;
  - 10.12.3 ensure the head of internal audit (or an external party carrying out the internal audit function) has direct access to the Chairman and to the Chairperson, and is accountable to the Committee;
  - 10.12.4 review and approve the annual internal audit work plan, scope and budget;
  - 10.12.5 receive a report on the results of the internal auditor's work on a periodic basis;
  - 10.12.6 review and monitor the major findings and recommendations of internal audit reviews and management's responsiveness to them;
  - 10.12.7 carry out an annual assessment of the effectiveness of the internal audit function, and as part of this assessment:

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- 10.12.7.1 meet with the head of internal audit (or an external party carrying out the internal audit function) at least once a year without the presence of management to discuss the effectiveness of the function;
  - 10.12.7.2 review and assess the annual internal audit work plan;
  - 10.12.7.3 determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business;
  - 10.12.7.4 consider the context of its overall risk management system, including a review of any available internal/self assessment reports.
- 10.13 The Committee shall also consider, at least once every five years, whether it would be appropriate to commission an external assessment of internal audit activities conducted by a qualified, independent reviewer or external review team.

### **External Audit**

- 10.14 The Committee shall:
- 10.14.1 consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting, in relation to the appointment, re-appointment and removal of the Group's external auditor;
  - 10.14.2 ensure that at least once every ten 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 auditor with those of other audit firms; and in respect of such tender develop and oversee the selection procedure and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process. An auditor may not serve for more than 20 years;
  - 10.14.3 if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
  - 10.14.4 oversee the relationship with the external auditor including (but not limited to):
    - 10.14.4.1 the approval of their remuneration, including both fees for audit and non-audit services, ensuring that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
    - 10.14.4.2 approving their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
    - 10.14.4.3 discussing as necessary with the external auditor before the annual audit commences the nature and scope of the audit, keep under review throughout the audit, and review at the end of the audit cycle the results of the audit;
    - 10.14.4.4 monitor the auditor's processes for maintaining independence, its compliance with relevant UK law, regulation, the Ethical Standard and other professional requirements, including the guidance on the rotation of audit partner and staff;
    - 10.14.4.5 monitor the level of fees paid to the external auditor compared to the overall fee income of the Group, office and partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standard;

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- 10.14.5 assess annually their independence and objectivity taking into account relevant UK law, regulation, the Ethical Standard and other professional requirements and the Group's relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of non-audit services;
- 10.14.6 satisfy itself that there are no relationships (such as family, employment, investment, financial or business) which could adversely affect the auditor's independence and objectivity;
- 10.14.7 agree a policy on the employment of former employees of auditor, taking into account the Ethical Standard and legal requirements, and monitor the application of this policy;
- 10.14.8 assess annually the qualifications, expertise and resources of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
- 10.14.9 seek to ensure co-ordination with the activities of the internal audit function;
- 10.14.10 evaluate the risks to the quality and effectiveness of the financial reporting process, especially in the light of the auditor's communications with the Committee;
- 10.14.11 meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit;
- 10.14.12 discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- 10.14.13 review the findings of the audit with the external auditor. This shall include but not be limited to the following:
  - 10.14.13.1 a discussion of any major issues which arose during the audit;
  - 10.14.13.2 the auditor's explanation of how the risks to audit quality were addressed;
  - 10.14.13.3 key accounting and audit judgements;
  - 10.14.13.4 the auditor's view of their interactions with senior management;
  - 10.14.13.5 levels of errors identified during the audit;
  - 10.14.13.6 the effectiveness of the audit process, 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; and
  - 10.14.13.7 a review of any findings and conclusions by the Financial Reporting Council;

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- 10.14.14 develop and implement policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.
- 10.15 The Committee shall also:
  - 10.15.1 review any representation letter(s) requested by the external auditor before they are signed on behalf of the Board;
  - 10.15.2 review the management letter and management's response to the auditor's findings and recommendations and ensure that management's actions are timely and effective.

### **Code of Conduct**

- 10.16 The Committee shall review annually the Group's Code of Conduct and its effectiveness.

### **11. Reporting Responsibilities**

- 11.1 The Chairperson shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities, and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:
  - 11.1.1 the significant issues that it considered in relation to the financial statements (required under paragraph 10.1) and how these were addressed;
  - 11.1.2 its assessment of the effectiveness of the external audit process (required under paragraph 10.13), the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans; and
  - 11.1.3 any other issues on which the Board has requested the Committee's opinion.
- 11.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 11.3 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 auditor; and all other information requirements set out in the Code.
- 11.4 In compiling the reports referred to in 11.1 and 11.3, 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 and the inputs to the Board's viability statement.

### **12. Other Matters**

The Committee shall:

- 12.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 12.2 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;

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- 12.3 give due consideration to relevant laws and regulations, the provisions of the Code and the requirements of the Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules, as appropriate;
- 12.4 be responsible for co-ordination of the internal and external auditors;
- 12.5 oversee any investigation of activities which are within its terms of reference;
- 12.6 work and liaise as necessary with all other board committees, taking particular account of the impact of risk management and internal controls being delegated to different committees; and
- 12.7 arrange for periodic reviews 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.

### **13. Authority**

- 13.1 The Committee is authorised to seek any information it requires from any Employee in order to perform its duties. All Employees are directed to co-operate with any request made by the Committee.
- 13.2 The Committee will have access to, and will be provided with, all accounting, compliance, internal and external audit reports and records required to enable it to discharge its obligations and duties. It is also free to request any further information it considers necessary.
- 13.3 The Committee is authorised to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.
- 13.4 The Committee has the right to publish in the Company's annual report, details of any issues that cannot be resolved between the Committee and the Board.