

# Audit Committee TOR

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## LUCECO PLC

### TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

In this document, the "**Board**" shall mean the Board of directors of the Company; the "**Committee**" shall mean the Audit Committee; the "**Company**" shall mean Luceco plc. References to the "Code" are to the UK Corporate Governance Code.

#### 1. CONSTITUTION

The Committee was constituted at a full meeting of the Board held on 27 September 2016 in accordance with the articles of association of the Company.

#### 2. PURPOSE OF COMMITTEE

The purpose of the Committee is to oversee the Company's and its subsidiaries (the "Group's") internal financial controls and risk management systems; to recommend the half and full year financial results to the Board; and to monitor the integrity of all formal reports and announcements relating to the Company's financial performance.

In addition, the Committee shall:

- (a) appoint the internal auditors and maintain an appropriate relationship with them and the external auditor of the Group; and
- (b) report the findings and recommendations of the internal and external auditors to the Board.

#### 3. MEMBERSHIP

- 3.1. The Committee shall comprise at least three members. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the chairman of the Committee.
- 3.2. All members of the Committee shall be independent non-executive directors at least one of whom shall have a professional accounting qualification and recent and relevant financial experience. The Committee as a whole should have competence relevant to the sector the Company operates in. The chairman of the Board shall not be a member of the Committee.
- 3.3. If any member of the Committee is unable to act for any reason, the chairman of the Committee may appoint any other independent non-executive director of the Company to act as his or her alternate.
- 3.4. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the chairman of the Board, chief executive, finance director, other directors, the heads of risk, compliance and internal audit and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 3.5. The external auditor shall be invited to attend meetings of the Committee on a regular basis. At least once in each year, the Committee shall meet with the external auditor without the presence of any executive director or employee to discuss the auditor's remit and any issues arising from the audit.
- 3.6. Unless determined otherwise by the Board, appointments to the Committee shall be for a period of up to three years, extendable by no more than two additional three-year

periods, provided the director continues to meet the criteria for membership of the Committee.

- 3.7. The Board shall appoint the Committee chairman who shall be an independent non-executive director. 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.

#### **4. 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 issues.

#### **5. QUORUM**

- 5.1. The quorum necessary for the transaction of business shall be two members of the Committee one of whom shall have recent and relevant financial experience. No meeting may be convened unless all members of the Committee have received notice of the meeting. Whenever it is practicable, meetings should be arranged so that all Committee members and the Committee secretary can be present.
- 5.2. 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. FREQUENCY OF MEETINGS**

- 6.1. The Committee shall meet at least three times a year at appropriate times in the financial reporting and audit cycle and otherwise as required.
- 6.2. Outside of the formal meeting programme, the Committee chairman will maintain a dialogue with key individuals involved in the Company's governance, including the Board chairman, the chief executive, the finance director, the external audit lead partner and the head of internal audit/ independent internal audit firm representative.

#### **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 external audit lead partner or head of internal audit if they consider it necessary.
- 7.2. Unless otherwise agreed by all members of the Committee, 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 (or such shorter period of time as the members of the Committee may otherwise agree). Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

#### **8. MEETINGS BY TELEPHONE AND OTHER ELECTRONIC MEANS**

- 8.1. A meeting of the members of the Committee may consist of a conference between Committee members, some or all of whom are in different places provided that each Committee member may participate in the business of the meeting whether directly, by telephone or by any other electronic means which enables him:

- (a) to hear each of the other participating Committee members addressing the meeting; and
- (b) if he so wishes, to address all of the other participating Committee members simultaneously.

8.2. A quorum is deemed to be present if at least the number of Committee members required to form a quorum may participate in the manner specified in paragraph 8.1 above in the business of the meeting.

8.3. A Committee meeting held in the manner specified in paragraph 8.1 above is deemed to take place at the place where the largest group of participating Committee members is assembled or, if no such group is readily identifiable, at the place from where the chairman of the meeting participates.

## **9. MINUTES OF MEETINGS**

9.1. The secretary shall minute the proceedings and decisions of all Committee meetings, including recording the names of those present and in attendance.

9.2. Draft Committee minutes shall be circulated promptly to all Committee members. Once approved, the minutes shall be circulated to all other Board members unless it would be inappropriate to do so in the opinion of the Committee chairman.

## **10. ANNUAL GENERAL MEETING**

The Committee chairman shall attend the annual general meeting to answer shareholder questions on the Committee's activities.

## **11. DUTIES**

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

### **11.1. Financial Reporting**

(a) The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, trading statements and any other formal announcements relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain, before submission to the Board.

(b) The Committee shall review and challenge where necessary:

- i. the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/Group;
- ii. the methods used to account for significant or unusual transactions where different approaches are possible;
- iii. whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- iv. the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;

- v. all material information presented with the financial statements, such as the business review/operating and financial review and the corporate governance statements (insofar as it relates to the audit and risk management); and
  - vi. the going concern assumption and viability statement and their periods of assessment.
- (c) 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 shall 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.

#### 11.3. **Internal Controls and Risk Management Systems**

The Committee shall annually:

- (a) review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems, including the appropriateness and effectiveness of the risk management framework;
- (b) review and approve the statements to be included in the annual report concerning internal controls and risk management;
- (c) review the overall process of assessing business risks and managing the impact on the Group; and
- (d) review the overall approach to setting risk appetite, tolerance levels, risk exposure and any changes to the risk management framework.

#### 11.4. **Compliance and Fraud**

The Committee shall annually:

- (a) review the Company's procedures for detecting fraud;
- (b) review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;
- (c) 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
- (d) review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Company's compliance function.

#### 11.5. **Internal Audit**

- (a) Where there is no internal audit function, consider annually whether the Company's size and activities are such that an internal audit function should be

established and, if so, determine its remit and make a recommendation to the Board.

- (b) Where an internal audit function exists, the Committee shall:
- i. approve the appointment and removal of the head of internal audit or any external consultants used to fulfil the function;
  - ii. consider and approve the remit of the internal auditor 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 internal auditor has adequate standing and is free from management or other restrictions;
  - iii. review and assess the annual internal audit plan;
  - iv. review reports addressed to the Committee from the internal auditor;
  - v. review and monitor management's responsiveness to the internal auditor's findings and recommendations;
  - vi. meet with 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; and
  - vii. ensure the internal auditor has direct access to the chairman of the Board and to the Committee chairman, and is accountable to the Committee.

#### 11.6. External Audit

The Committee shall:

- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the ACM, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall oversee the selection process for a new auditor and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- (b) agree the timing of putting the external audit services contract out to tender (taking account of the Code requirement of putting the external audit services contract out to tender at least every ten years) 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 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;
- (c) oversee the relationship with the external auditor including (but not limited to):
  - i. recommendations on their remuneration, whether fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - ii. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

- iii. 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;
  - iv. 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);
  - v. agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
  - vi. monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Company compared to the overall fee income from the firm, office and partner and other related requirements;
  - vii. assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
  - viii. seeking to ensure co-ordination with the activities of the internal audit function; and
  - ix. 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 auditor from the market in that evaluation.
- (d) 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 auditor's remit and any issues arising from the audit;
- (e) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement having regard to the seniority, expertise and experience of the audit team;
- (f) review the findings of the audit with the external auditor. This shall include, but is not limited to, the following:
- i. a discussion of any major issues which arose during the audit;
  - ii. any accounting and audit judgements;
  - iii. levels of errors identified during the audit process; and
  - iv. the effectiveness of the audit process.
- (g) review any representation letter(s) requested by the external auditor before they are signed by management;
- (h) review the management letter and management's response to the auditor's findings and recommendations; and
- (i) develop and implement a 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.



## 12. REPORTING RESPONSIBILITIES

- 12.1. The Committee chairman 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:
- (a) the significant issues that it considered in relation to the financial statements (required under paragraph 11.1 (a)) and how these were addressed;
  - (b) its assessment of the effectiveness of the external audit process (required under paragraph 11.6(c)(vii)) and its recommendation on the appointment or reappointment of the external auditor; and
  - (c) any other issues on which the Board has requested the Committee's opinion.
- 12.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 12.3. 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 approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted; if the external auditor provides non-audit services, an explanation of how the auditors objectivity and independence are safeguarded; 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.
- 12.4. In the compiling of the reports referred to in 12.1 and 12.3, 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. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

## 13. OTHER MATTERS

The Committee shall:

- 13.1. have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 13.2. be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;
- 13.3. give due consideration to laws and regulations, the provisions of the Code and the requirements of the FCA's Listing, Prospectus and Disclosure Guidance and Transparency Rules and any other applicable rules and/or regulations, as appropriate;
- 13.4. be responsible for co-ordination of the internal and external auditors;
- 13.5. oversee any investigation of activities which are within its terms of reference;
- 13.6. work and liaise as necessary with all other Board Committees; and

- 13.7. 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 to the Board for approval. The Board shall also review the Committee's effectiveness annually.

#### **14. AUTHORITY**

The Committee is authorised:

- 14.1. to seek any information it requires from any employee or director of the Company in order to perform its duties and the Board shall direct all employees and directors to co-operate with any request made by the Committee;
- 14.2. to obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter within its terms of reference;
- 14.3. to call any employee to be questioned at a meeting of the Committee as and when required; and
- 14.4. 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.

Approved and adopted by the Board on 26 February 2019.