

Terms of reference

# Audit committee

Nucleus Financial Group plc

Adopted by resolution of the directors passed on 1 December 2020

**Nucleus Financial Group plc**  
**Audit Committee - Terms of reference**

**1. Introduction**

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These terms of reference were adopted by a resolution of the board of directors of Nucleus Financial Group plc (the "**Company**") passed on (1 December 2020). The principal purposes of these terms of reference are:

- 1.1 to give additional assurance regarding the integrity, quality and reliability of financial information used by the Board (as defined below) and financial statements issued by the Company;
- 1.2 to maximise the efficiency and effectiveness of the Company's internal and external audit arrangements and three lines of defence; and
- 1.3 To assist the Board in fulfilling its oversight responsibilities for the Nucleus group, specifically in relation to financial reporting, compliance, internal financial controls, and ethical conduct.

**2. Membership**

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- 2.1 The audit committee (the "**Committee**") shall be appointed by the board of directors of the Company (the "**Board**"), on the recommendation of the nomination committee in consultation with the audit committee chair. The Committee shall be made up of at least three directors.
- 2.2 The majority of members of the Committee shall be independent non-executive directors. All members of the Committee are expected to be financially literate and at least one member of the Committee must have substantial accounting competence, or recent and relevant financial management experience and expertise. Membership shall include at least one member of the risk committee. The chair of the Board may be a member of, but may not chair, the Committee.
- 2.3 It is desirable that one or more Committee members have an understanding of the Group's management information systems;
- 2.4 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 still meets the criteria for membership of the Committee.
- 2.5 The chair of the Committee shall be appointed by the Board and shall be an independent non-executive director. In the absence of the chair of the Committee and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting. For the avoidance of doubt, the chair of the Committee shall not have a second or casting vote.
- 2.6 The company secretary or his/her nominee shall be 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.
- 2.7 The persons listed in schedule 1 are the appointed chair, members and secretary of the Committee and their responsibilities are provided for at schedule 2.

**3. Attendance at meetings**

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- 3.1 Only members of the Committee have the right to attend Committee meetings. The persons listed in schedule 1 will be invited to attend meetings of the Committee on a regular basis.
- 3.2 All board members also have the right to attend Committee meetings as observers.
- 3.3 The quorum necessary for the transaction of business at a meeting of the Committee shall be two members. 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.

**4. Frequency and format of meetings**

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- 4.1 The Committee shall meet as often as circumstances dictate, but at least four times a year and at appropriate times in the Company's reporting and audit cycle and otherwise as required.
- 4.2 Outside of the formal meeting programme, the Committee chair will maintain a dialogue with key individuals involved in the Company's governance, including the chair of the Board, the chief executive, the finance director, the heads of risk and compliance, the company secretary and internal and external audit providers.
- 4.3 The Committee has the prerogative to, and should, meet with management, the internal audit provider (if applicable) and external auditors on a regular basis at separate executive sessions.
- 4.4 A timetable of business is established once per year and can be found at schedule 3.

## **5. Notice of meetings**

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- 5.1 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 or internal auditor if they consider it necessary.
- 5.2 Unless otherwise agreed, notice of each meeting of the Committee 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.

## **6. Minutes of meetings**

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- 6.1 The secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2 The secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.3 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, minutes may, on request by the Board, be tabled at subsequent board meetings.

## **7. Authority**

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The Committee is authorised by the Board to:

- 7.1 investigate any matter within its terms of reference and to seek any information it requires from any employee of the Company in order to perform its duties. All employees are directed to co-operate (if required, on a confidential basis) with any request made by the Committee;
- 7.2 within the limit of the budget set by the Board, obtain outside legal, accounting or other independent professional advice at the cost of the Company and to secure the attendance of outsiders with relevant experience and expertise on any matters within its terms of reference if it considers this necessary; The secretary to the Committee shall maintain a register of independent advisers who provide services to the Committee.
- 7.3 call any employee to be questioned at a meeting of the Committee as and when required; and
- 7.4 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.

## **8. Duties**

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The specific duties of the Committee shall be those set out in paragraphs 9 to 14 and shall be carried out for the Company, its subsidiary undertakings and the group as a whole, as appropriate and references in those paragraphs to the Company shall be deemed to include its subsidiary undertakings and the group as a whole, as appropriate.

## **9. Financial reporting**

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- 9.1 The Committee shall monitor the integrity of, and make recommendations to the Board concerning the annual financial statements and half-yearly reports of the Company and any formal announcement relating to the financial performance of the Company and group, 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 auditor.
- 9.2 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, provided that such monitoring and review is not inconsistent with any requirement for prompt reporting under the Prospectus Rules, the Disclosure Guidance and Transparency Rules and the AIM Rules as appropriate.
- 9.3 In particular, the Committee shall review and challenge where necessary:
- 9.3.1 the suitability and consistency of, and any changes to, significant accounting policies and practices both on a year on year basis and across the group in consideration of UK and (if applicable) internationally accepted practice and the appropriate EU adopted IFRS (International Financial Reporting Standards) and FRS101 accounting standards and legal framework;
  - 9.3.2 the methods used to account for significant or unusual transactions where different approaches are acceptable under IFRS;
  - 9.3.3 the valuation of assets and liabilities on the balance sheet, including any value placed on goodwill and unlisted investments;
  - 9.3.4 financial exposures, including any outstanding litigation matters, claims against the firm or any other liabilities or contingent liabilities, including unrealised taxation balances;

- 9.3.5 the effect and disclosure of any significant off-balance sheet transactions and post-balance sheet events;
  - 9.3.6 the reasonableness of the tax calculation and corresponding provisions;
  - 9.3.7 the quality of earnings, including consideration of major variances from budget, recent forecasts and prior year results and the effect of significant internal control breakdowns on financial statements;
  - 9.3.8 the impact of any proposed dividend;
  - 9.3.9 whether the Company has followed appropriate accounting policies and made appropriate estimates and judgements, taking into account the views of the external auditor and any adjustments resulting from the external audit process;
  - 9.3.10 the clarity and completeness of disclosure in the Company's financial statements and the context in which statements are made in support of the financial position and prospects of the Company and group, including their adequacy in consideration of statutory solvency requirements, going concern and any existing non-current liabilities;
  - 9.3.11 all material information presented with the financial statements, such as the strategic report including any viability statement, section 172 statement and the corporate governance statements (insofar as it relates to audit and risk management); and
  - 9.3.12 any forward looking financial reports including future cash flows and working capital requirements used to reach a conclusion on the going concern of the Company and group or in support of the future solvency and liquidity position of the Company and group.
- 9.4 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. Narrative reporting**

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The Committee should review the content of the annual report and financial statements 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. Internal controls**

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The Committee shall:

- 11.1 keep under review the effectiveness of the Company's internal control systems including controls over material outsourced operations;
- 11.2 review and approve the statements to be included in the annual report concerning internal control systems;
- 11.3 review any identified control weaknesses and failures, and communication and remediation thereof;
- 11.4 ensure the accountability of management for internal control by communicating the importance of internal controls and management of risk; and
- 11.5 annually formulate a recommendation to the board on the effectiveness of the internal control environment.

## **12. Internal audit**

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The Committee shall:

- 12.1 monitor and review the effectiveness of the Company's internal audit strategy and model in the context of the Company's overall risk management system;
- 12.2 approve the appointment and removal of the Company's internal audit provider at appropriate intervals, given due consideration of expertise, independence, fees, reputation, effectiveness and capacity;
- 12.3 consider and approve the remit of the internal audit provider and ensure it has adequate resources and appropriate access to information to enable it to perform its role and mandate effectively and in accordance with the Company's internal audit charter and the relevant professional standards for internal auditors. The Committee shall also ensure that its internal audit provider has adequate standing and is free from management or other restrictions;
- 12.4 review and approve the annual internal audit plan and charter to ensure it is aligned to the key risks of the business;
- 12.5 review promptly all reports on the Company from the internal audit provider;
- 12.6 review and monitor management's responsiveness to and remediation of any internal audit findings and recommendations of the internal audit provider;

- 12.7 the Chair shall meet the internal audit provider's engagement partner at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out;
- 12.8 have the ability to request a private session with the internal auditor at any Audit Committee meeting; and
- 12.9 ensure the internal audit provider has a right of direct access to the chair of the Board and to the Committee, and shall be accountable to the Committee.

### **13. External audit**

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Pursuant to its delegated authority from the Board and these terms of reference in respect of external statutory audit and the arrangement of any required external specialist audits, including Cass, the Committee shall:

- 13.1 consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting (the "**AGM**"), in relation to the appointment, re-appointment and removal of the Company's external statutory auditor based on due consideration of expertise, independence, fees, reputation, effectiveness and capacity;
- 13.2 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 the Committee shall 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;
- 13.3 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 13.4 oversee the relationship with the external statutory auditor and any external specialist audit provider (including Cass) including (but not limited to):
  - 13.4.1 approval of their remuneration (whether fees for audit or non-audit services) and that the level of their fees is appropriate to enable an effective and high quality audit to be conducted;
  - 13.4.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 13.4.3 assessing annually their approach to materiality, 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;
  - 13.4.4 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) or any other matter between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
  - 13.4.5 agreeing with the Board a policy on the employment of former employees of the Company's auditor and then monitoring the implementation of this policy;
  - 13.4.6 monitoring the 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;
  - 13.4.7 assessing annually the qualifications, expertise and resources of the auditor and the quality and effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
  - 13.4.8 seeking to ensure co-ordination with the activities of the internal audit and any other assurance provider; and
  - 13.4.9 evaluating the risks to quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of the Company's external auditor from the market in that evaluation.
- 13.5 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 Chair shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- 13.6 have the ability to request a private session with the external auditor at any Audit Committee meeting; and
- 13.7 review and approve the annual audit plan, including any proposed specialist third party audit plan, and ensure that it is consistent with the scope of the relevant audit engagement, having regard to the seniority, expertise and experience of the relevant audit team;
- 13.8 review the finding of the statutory audit and any specialist external audit with the relevant audit provider. This shall include but not be limited to, the following:
  - 13.8.1 the discussion of any major issues or difficulties which arose during the audit, including any control weaknesses and/ or failures;

- 13.8.2 key accounting and audit judgements;
- 13.8.3 levels of errors identified during the audit; and
- 13.8.4 the effectiveness of the audit;
- 13.9 review and approve any representation letter(s) requested by the external auditor before they are signed by management;
- 13.10 review the management letter and management's response to and remediation of the auditor's findings and recommendations; and
- 13.11 seeking the approval of the board in respect of the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

#### **14. Cass, legal, data protection, governance, compliance and financial crime**

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The Committee shall:

- 14.4 Review the overall levels of insurance for the group including directors' and officers' liability insurance and indemnification of directors, for recommendation to the board
- 14.5 Review the legal report;
- 14.6 Review the quarterly compliance report and review the annual compliance monitoring plan;
- 14.7 Review the first line data protection report, and review the second line data protection oversight report;
- 14.8 Review the quarterly financial crime report and review the annual financial crime report and risk assessment;
- 14.9 Review the risk assurance report;
- 14.10 Review the annual joint assurance plan (compliance, risk and internal audit); and
- 14.11 Review the Cass oversight function holder report.

#### **15. Reporting procedures**

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- 15.1 The chair of the Committee shall report formally to the Board on proceedings of the Committee after each meeting and on all matters within its duties and responsibilities and it shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:
  - 15.1.1 the significant issues that it considered in relation to the financial statements of the Company and how these were addressed;
  - 15.1.2 its assessment of the effectiveness of the internal audit process and its recommendation on the appointment or reappointment of the internal auditor;
  - 15.1.3 its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
  - 15.1.4 any other issues on which the Board has requested the Committee's opinion.
- 15.2 The Committee shall make whatever recommendations to the Board it deems appropriate in any area within its remit where action or improvement is needed.
- 15.3 The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report including an audit committee report explaining the major tasks undertaken and demonstrating how independent oversight of both management and external auditors has been exercised.
- 15.4 The chairperson of the Committee shall attend the AGM and shall answer questions, through the chairperson of the Board, on the Committee's activities and its responsibilities.

#### **16. Other matters**

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The Committee shall:

- 16.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 16.2 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. Committee members are encouraged to enhance their familiarity with finance, compliance and information systems by participating in educational programmes arranged by the Company;
- 16.3 give due consideration to laws and regulations, the provisions of the UK Listing Authority's Prospectus Rules, the Disclosure Guidance and Transparency Rules and associated guidance, the AIM Rules and associated guidance

and the Quoted Companies Alliance corporate governance guidance and, as appropriate, the UK Corporate Governance Code, FCA Handbook Rules and any other applicable rules, as appropriate;

- 16.4 be responsible for co-ordination of the internal and external auditors;
- 16.5 oversee any investigation of activities which are within its terms of reference (subject to the overriding authority of the Board) and act for internal purposes as a court of last resort;
- 16.6 work and liaise as necessary with all other board committees; and
- 16.7 at least once a year, review its own performance, 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.

