



**ELECO**<sup>®</sup>



# Audit Committee Terms of Reference

Eleco plc  
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## Audit Committee Terms of Reference

### 1. Constitution

- 1.1 This committee of the board known as the Audit Committee (the "**Committee**") is established under Article 86 of the Articles of Association of the Company. In these terms of reference, the "**Group**" means the Company and its subsidiaries from time to time.

### 2. Membership

- 2.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Committee Chair. The Committee shall be made up of at least two members.
- 2.2 All members of the Committee shall be independent non-executive directors. If any member of the Committee is deemed not to be independent, then the Board shall provide an explanation as to why they consider it appropriate for such director to be a member of the Committee. It is intended that at least one member of the committee shall have recent and relevant financial experience. The Chair of the Board shall not be a Committee member unless exceptional circumstances apply such as when there is a vacancy among the non-executive directors, but may be invited to attend its meetings. The Chair of the Board shall not chair the Committee.
- 2.3 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chair of the Board, Chief Executive Officer, Chief Financial Officer, other directors, the heads of risk and compliance and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate.
- 2.4 The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 2.5 Appointments to the Committee shall be for an initial period of up to three years, which may be extended for a further term of three years, provided the director remains independent.
- 2.6 The Board shall appoint the Committee Chair who shall be an independent non-executive director. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.
- 2.7 The Committee Chair shall review membership of the Committee annually, as part of the annual performance evaluation of the Committee.

### 3. Secretary

- 3.1 The secretary of the Committee shall be such person as the Committee shall from time to time decide.

### 4. Quorum

- 4.1 The quorum necessary for the transaction of business shall be two members, present in person or by audio or video conference. 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.

### 5. Frequency of Meetings

- 5.1 The Committee shall meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required.

- 5.2 Outside of the formal meeting programme, the Committee Chair (and to a lesser extent, other Committee members) shall maintain a dialogue with key individuals involved in the Company's governance, including the Chair of the Board, Chief Executive Officer, Chief Financial Officer and the external audit lead partner.

## **6. Notice of Meetings**

- 6.1 Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of the Committee Chair, Committee members or the external auditors if they consider it necessary.
- 6.2 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, 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.

## **7. Voting Arrangements**

- 7.1 Subject to Paragraph 7.2 and Paragraph 7.3, each Committee member shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a Committee meeting (whether in person or by audio or video conference).
- 7.2 If a matter that is considered by the Committee is one where a Committee member, either directly or indirectly has a personal interest, that member shall not be permitted to vote at the meeting.
- 7.3 Except where he or she has a personal interest, the Committee Chair shall have a casting vote.
- 7.4 The Committee Chair may ask any attendee of a Committee meeting to leave the meeting to allow discussions of matters relating to them.

## **8. Minutes of Meetings**

- 8.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 8.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 8.3 Draft minutes shall be agreed with the Committee Chair and then be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless a conflict of interest exists.
- 8.4 A resolution in writing and signed by all Committee members will be as effective as a resolution passed at a Committee meeting. Any written resolution shall be tabled and noted at the next meeting of the Committee.

## **9. Annual General Meeting**

- 9.1 The Committee Chair shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

## **10. Duties**

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

**10.1 Financial reporting**

- 10.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. 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.
- 10.1.2 The Committee shall review and challenge where necessary:
- 10.1.2.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company or Group;
  - 10.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
  - 10.1.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - 10.1.2.4 the clarity of disclosure in the Company's financial reports and the context in which statements are made;
  - 10.1.2.5 all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management);
  - 10.1.2.6 management's assessment of the impact of new accounting policies on the distributable reserves of the Company;
  - 10.1.2.7 the Company's reported profit and the cash / liquidity position;
  - 10.1.2.8 significant adjustments resulting from the external audit;
  - 10.1.2.9 the assumptions or qualifications in support of the going concern statement (including any material uncertainties as to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements) and the longer term viability statement (including an assessment of the prospects of the Company looking forward over an appropriate and justified period), including the robustness of stress-testing and scenario planning, and disclosures around such analysis; and
  - 10.1.2.10 the legality of any proposed dividend and the company's ability to pay it and remain a going concern.
- 10.1.3 The Committee shall monitor compliance with financial reporting standards and the AIM Rules and related guidance and other financial and governance reporting requirements.

**10.2 Internal controls and risk management systems**

The Committee shall:

- 10.2.1 keep under review the effectiveness of the Company's internal controls and risk management systems; and

10.2.2 review and approve the statements to be included in the Annual Report concerning internal controls and risk management.

### **10.3 Whistleblowing**

The Committee shall review the Company'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.

### **10.4 External audit**

The Committee shall:

- 10.4.1 consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall 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;
- 10.4.2 oversee any tender for the audit services contract 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, conduct such tender process and develop and oversee the selection process, ensuring that all tendering firms have such access as is necessary to information and individuals during the tendering process;
- 10.4.3 evaluate the risks to the quality and effectiveness of the financial reporting process in light of the external auditor's communications with the Committee and consider the need to include the risk of the withdrawal of the external auditor from the market in that evaluation
- 10.4.4 oversee the relationship with the external auditor including (but not limited to):
  - 10.4.4.1 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;
  - 10.4.4.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 10.4.4.3 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;
  - 10.4.4.4 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;
  - 10.4.4.5 agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
  - 10.4.4.6 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; and
  - 10.4.4.7 assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;

- 10.4.5 meet as considered necessary 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 their remit and any issues arising from the audit;
- 10.4.6 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- 10.4.7 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
  - 10.4.7.1 a discussion of any major issues which arose during the audit,
  - 10.4.7.2 any accounting and audit judgements, and
  - 10.4.7.3 levels of errors identified during the audit.

The Committee shall also review the effectiveness of the audit.

- 10.4.8 review any representation letter(s) requested by the external auditor before they are signed by management;
- 10.4.9 review the management letter and management's response to the auditor's findings and recommendations; and
- 10.4.10 develop and implement a policy on the supply of non audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

## **10.5 Reporting responsibilities**

- 10.5.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 10.5.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.5.3 The Committee shall compile a report to shareholders on its activities to be included in the Company's Annual Report.

## **10.6 Other matters**

The Committee shall:

- 10.6.1 have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
- 10.6.2 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;
- 10.6.3 give due consideration to laws and regulations, the provisions of the Combined Code and the requirements of the UK Listing Authority's Listing Rules as appropriate;
- 10.6.4 be responsible for co-ordination of the external auditors:

- 10.6.5 oversee any investigations of activities which are within its terms of reference and act as a court of the last resort:
- 10.6.6 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;
- 10.6.7 annually review the Company's procedures for detecting fraud; and
- 10.6.8 review the Company's systems and controls for ethical behaviour and the prevention of bribery and modern slavery.

## **11. Authority**

The Committee is authorised:

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