

Audit Committee

Committee members	Regular attendees
• Patrick Storey (Chairman)	Chief Executive Officer ¹
• Stephen Karle	Chief Financial Officer ¹
• Sir Nigel Knowles	Finance Director ¹
• Joanne Lake	Head of Internal Audit ¹
• Peter Ward	Risk & Compliance Director ¹
	Representatives from Deloitte, the external auditor ¹
	Company Secretary

¹ By invitation

Both Patrick Storey and Joanne Lake are Chartered Accountants. Patrick Storey, Stephen Karle, Joanne Lake and Peter Ward have all had extensive experience within the financial services sector, whilst Sir Nigel Knowles is the Chairman of global legal business DWF, having been a managing partner at the global law firm DLA Piper for nearly 20 years.

What does the Committee do?

The key objective of the Committee is to provide assurance to the Board as to the effectiveness of the Company's internal controls and the integrity of its financial records and externally published results.

The Committee monitors and reviews the Group's financial reporting from information provided by management and the auditor. The Committee reports to the Board on the Group's full and half year results, having examined the accounting policies on which they are based and ensured compliance with relevant accounting standards.

The Committee's terms of reference are available on the Group's website.

The Committee was in place throughout the year and held four meetings.

Dear Shareholder

As Chairman of the Audit Committee, I am pleased to present my report for the year ended 24 February 2018.

The report provides insight into the composition of the Committee and the work that it undertakes. In essence, we ensure the integrity of the financial reporting, the robustness of internal operational and financial controls and the independence of the external auditor.

The Committee acknowledges and embraces its role in protecting the interests of shareholders and is committed to monitoring the integrity of the Group's reporting. The Committee performed reviews of the full year, interim and trading update announcements, and the annual report and accounts and half-yearly financial statements. The Committee has satisfied itself that controls over the accuracy and consistency of information that has been presented are robust.



Audit Committee *continued*

Composition and governance

In addition to my role as Chairman of the Audit Committee, I am also Chairman of the Risk & Compliance Committee. As Chartered Accountants, the Board considers that both Joanne Lake and I have recent and relevant financial experience. All of the Non-Executive Directors are members of this Committee, and have been since the Group's IPO in May 2016. This was reviewed by the Nominations Committee in November 2017, and seen to be appropriate for what is still a comparatively young listed organisation. The Board believes that the current members have sufficient skills, qualifications and experience to discharge their duties in accordance with the Committee's terms of reference.

The Chief Executive Officer, the Chief Financial Officer, the Finance Director, the Risk & Compliance Director, the Head of Internal Audit and senior representatives of the external auditor attend Committee meetings by invitation in order to ensure that all relevant information is available to the Committee.

The Committee meets with the external auditor without the presence of Executive Management at least once each year to discuss matters relating to its remit and any issues relating to the audit. The Committee also meets the Head of Internal Audit and the Risk & Compliance Director annually without the presence of other Executive Management. The Committee has direct and unrestricted access to both internal and external audit functions. As the Chairman, I also have regular contact with the external auditor, the Chief Financial Officer, the Risk & Compliance Director, and the Head of Internal Audit outside the formal meetings to ensure that any areas for discussion are dealt with in a timely manner.

How the Committee discharged its responsibilities

The Audit Committee met four times during the year in alignment with its terms of reference and with the Group's financial reporting timetable.

A self-assessment internal review of the performance of the Committee concluded that it had discharged its responsibilities during the year. Following this review, the time allocated to these meetings has been increased to ensure that it remains appropriate for the issues being raised. In addition, following the updating of the Committee's terms of reference in February 2018, a formal rolling agenda is being introduced for the 2018/19 financial year.

Significant areas of judgement

The external auditor has scoped the audit appropriately and subjected significant areas of judgement to robust challenge.

Significant areas of judgement considered by the Committee included:

1. Impairment

The Group makes judgements in relation to identifying objective evidence of impairment and calculates the provision by reference to historical payment performance to estimate the amount and timing of expected future cash flows. The Committee regularly challenges the appropriateness of management's judgements and assumptions underlying the impairment provision calculations and concluded that the provisions held against the loan book are reasonable.

2. Revenue Recognition

Under IAS 39 interest income should be recognised on the shorter of the expected life or the contractual life of the loan. The Committee has judged that interest income should be recognised over the contractual life of the loan based on historical loan book performance.

3. IFRS 9

From 25 February 2018, the Group is required to adopt IFRS 9, which governs the classification and measurement of financial instruments. In association with the Group's internal finance team and its external auditor, the Committee has reviewed the Group's proposed treatment of its financial instruments under IFRS 9, and the resulting key judgements and impacts are set out in Note 1.

In previous years, there were other key areas where judgements had been made, for example business acquisitions, which were highlighted in last year's report, but there has been no new activity in this, or any other area, during FY2018.

Meetings of the Committee

The work undertaken by the Committee included the following activities:

- a review of the full-year results including the Annual Report and Accounts, preliminary results and the external auditor's report. In reviewing these documents and determining whether they were fair, balanced and understandable, the Committee also considered the work and recommendations of management;
- an interim results review;
- a consideration of the appropriateness of accounting policies and critical accounting estimates and judgements, including a review of information from the Chief Financial Officer and reports from the external auditor setting out its views on the accounting treatments and judgements in the financial statements;
- a consideration of the level of non-audit work carried out for the Group by the external auditor and the seeking of assurances from the auditor that it maintains suitable policies and processes to ensure independence. During the year, the Committee updated a non-audit work policy;
- overseeing the activities of the Group's internal audit function, including its resourcing, its planning and the output of its audit work;
- reviewing the adequacy and effectiveness of the Group's internal audit function and the robustness of the Group's internal operational and financial controls; and
- a review of the going concern assumptions when considering interim and final results statements and long-term viability in the case of the final results statement, taking into account internal financial projections.

External audit

The Group's external auditor is Deloitte LLP.

The Committee is responsible for reviewing the objectivity, independence and cost effectiveness of the external auditor.

The Committee also reviews the performance of the auditor taking into account the services and advice provided to the Group and the fees charged for these services. Details of the auditor's total fees for the year can be found on page 82.

During the year, the Committee updated a non-audit work policy which is designed to mitigate any risks threatening, or appearing to threaten, the external auditor's independence and objectivity.

Consequently, we monitor the level of non-audit work carried out by the external auditor. During the year to 24 February 2018, the level of audit fees amounted to £224k (FY17: £156k), and non-audit fees amounted to £26k (FY17: £588k). The ratio of audit fees to non-audit fees was 11.6% (FY17: 376.9%). The non-audit costs in FY17 consisted primarily of one-off costs related to the Company's Initial Public Offering in May 2016. The non-audit work carried out during FY18 related to the review of the interim results. The Committee considers it standard practice for the external auditor to undertake the review of the interim results.

Deloitte LLP was first appointed as auditor of Morses Club Limited with effect from 1 March 2009 as a result of a competitive audit tender. Since then, Morses Club Limited acquired Shopcheck Financial Services and the resulting Group was listed on AIM as Morses Club PLC in May 2016. During this period of change, the Group has valued the continuity of the existing auditor's appointment.

The Committee is satisfied that the Group has received good service from Deloitte LLP. The service the Committee has received has been exemplary, and the management team have confirmed that they are

very content with the competence and performance of the team at Deloitte. We are also aware that in the coming year the Group will need to adopt IFRS 9, the biggest single change in accounting standards for this industry in many years. Deloitte have significant experience and expertise within the Home Collected Credit market and have been working pro-actively with management on this matter. The Committee will review whether it wishes to put the external audit service out to tender after IFRS 9 has been successfully implemented.

On this basis, the Committee has recommended to the Board that Deloitte be proposed for reappointment at the forthcoming Annual General Meeting. Deloitte has indicated its willingness to continue in office. The Committee confirms that there are no contractual obligations that restrict the Committee's choice of external auditor in the future.

After the completion of the 2018 audit, Matt Perkins, the current partner from the external auditor will be rotating off the Morses Club audit after eight years of service. On admission to AIM in May 2016, Morses Club became an 'other listed entity' and according to s3.14 of the Financial Reporting Council's Ethical Standards, Matt was able to continue as the audit partner for a maximum of two further years. A new partner has already been introduced to the Group. The Committee wishes to record its sincere gratitude for the skill, commitment and expertise that Matt has brought to the statutory audit over the past eight years.

Internal audit function

The Group has an internal audit function headed by a suitably qualified and experienced Head of Internal Audit who reports directly to me, as Audit Committee Chairman. The internal audit function objectively reviews the Group's internal control processes using a risk-based internal audit plan and audit charter approved annually by the Committee. The plan is based primarily on output from the risk management process, but it is flexible and may include

ad-hoc investigations and other assurance work agreed by the Committee. Specialist technical knowledge and resources are sourced externally when required.

One of the largest reviews carried out by the internal audit department during the year was in the area of information security. This is seen as a high priority for the Group; indeed, the Head of Technology, Resilience & Cyber at the FCA highlighted that it is the FCA's view that it is vital for firms to protect their critical information, detect attempts to breach protective controls and respond quickly and effectively. The Committee has reviewed the results of the internal audit review and the Group's response to the findings, and will continue to do so.

The Committee closely reviews the reports of the internal audit function. Its work is primarily risk-based, using the Group's risk register to identify key risks which are then prioritised. The Committee has found the reports to be both incisive and timely, presented in a way that is well articulated. During the year, with my agreement, the Head of Internal Audit was promoted from his previous position of Internal Audit Manager, and the Committee agreed to invite the Head of Internal Audit to attend the whole of its meetings. This demonstrates the high regard that the Committee places on the Group's internal audit function and its Head.

FRC Corporate Reporting Review team

There was no interaction with the FRC's Corporate Reporting Review team during the year.

Approval

On behalf of the Audit Committee

Patrick Storey

Chairman
26 April 2018