

Morses Club PLC

Audit Committee

Terms of Reference

Header

Version	V1.0
Date Issued	25/2/2020
Next Review Date	February 2021
Director	Chair of the Audit Committee
Owner	Company Secretary
Summary	<p>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.</p> <p>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.</p>
Target Audience	All

Version Control

Date of Revision	New Version	Amendments Made	Approved By	Date of Meeting
25/2/2020	V1.0	Document layout made consistent with other company policies; names of members removed from the document; the Chairman is not permitted to be a member of the committee	The Committee	10/3/2020

1. Name

This Committee of the Board of Directors (“the Board”) shall be known as the Audit Committee (“the Committee”).

2. Membership

- 2.1 Members of the Committee will be appointed by the Nominations Committee in consultation with the Chair of the Committee. Members will be selected from amongst the independent non-executive directors of the Company and the Committee shall consist of not less than two independent members. Membership of the Committee will be reviewed by the Board on an annual basis.
- 2.2 At least one member of the Committee should have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies. Care should be taken to minimise the risk of any conflict of interest that might be seen to give rise to unacceptable influence.
- 2.3 Appointments to the Committee shall be for a period of up to 3 years, extendable by no more than 2 additional 3-year periods.
- 2.4 The Chair of the Board cannot be a member of the Committee.
- 2.5 The Chair of the Committee shall be appointed by the Nominations Committee. In the absence of the Chair of the Committee, the remaining members present shall elect one of themselves to chair the meeting.

3. Secretary

The Company Secretary (or his or her nominee) shall ordinarily act as the secretary of the Committee (the “Secretary”) and shall ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration of the issues.

4. Quorum

- 4.1 The quorum necessary for the transaction of business shall be two members of the Committee.
- 4.2 A duly convened and quorate meeting of the Committee 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 in each financial year at appropriate intervals in the financial reporting and audit cycle and at such other times as required for the Committee to effectively discharge its responsibilities.

5.2 Outside the formal meeting programme, the Chair of the Committee will maintain a dialogue with key individuals involved in the Company's governance, including the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the external audit lead partner and Head of Internal Audit.

6. Notice of meetings

6.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of the Chair of the Committee, any of its members or at the request of the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the external audit lead partner or Head of Internal Audit, 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 and the relevant supporting papers, shall be made available to each member of the Committee and any other person required to attend, no later than three working days before the date of the meeting.

7. Attendance at meetings

7.1 Only Committee members have the right to attend Committee meetings. However, the Committee may invite any non-independent Non-Executive Directors, the external auditor lead partner (or his or her substitute), the Chairman, the Chief Executive Officer, the Chief Financial Officer, the Risk & Compliance Director, the Finance Director and the Head of Internal Audit, to attend meetings on a regular basis and other non-members (for example, other Directors, other management and external advisers) to attend all or part of any meeting as and when appropriate or necessary.

7.2 Meetings may be held by telephone.

7.3 As noted in 11.7.11, at least once a year the Committee will meet the external auditor without Executive Directors or other management present.

7.4 As noted in 11.6.7, at least once a year the Committee will meet the Head of Internal Audit without Executive Directors or other management present.

7.5 At least once a year the Committee will meet the Director of Risk & Compliance without Executive Directors or other management present.

7.6 The Committee may meet separately with any of the Executive Directors without any other Executive Directors being present.

7.7 The Chair will be available to the Secretary, the Chief Financial Officer, the Head of Internal Audit and the external audit lead partner to discuss any matters of concern in relation to financial reporting matters or compliance with the Company's legal and regulatory obligations, in the widest sense, or any other matters within the remit of the Committee should this be considered necessary by those individuals.

7.8 Although normally decisions are reached on a consensus, in the event of a disagreement, decisions on any matter are made by the majority, with the Chair of the Committee having a second, casting vote in the event of a tie. A Committee

member who remains opposed to a proposal after a vote can ask for his or her dissent to be noted in the minutes.

- 7.9 A decision in writing and signed by all the members of the Committee will be as effective as a resolution passed at a Committee meeting. Any written decision will be tabled and noted at a meeting of the Committee.

8. Minutes of meetings

- 8.1 The Secretary (or his or her nominee) shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 8.2 The members of the Committee shall, at the beginning of each meeting, declare the existence of any conflicts of interest arising and the Secretary shall minute them accordingly.
- 8.3 Minutes of Committee meetings shall be circulated to all members of the Committee and the Board, once approved by the Chair.
- 8.4 Final signed copies of the minutes of the meetings of the Committee shall be maintained as part of the records of the Company.
- 8.5 The Chair of the Committee, or in his or her absence another Committee member, will raise any significant matters arising at the next Board meeting.

9. Annual General Meeting

The Chair of the Committee should attend the Annual General Meeting to answer any shareholder questions on the Committee's activities and responsibilities.

10. Authority

The Committee is authorised by the Board if the Committee considers it necessary to:

- 10.1 conduct or authorise any investigation into matters within its scope of responsibility;
- 10.2 call on any employee of the Company to be questioned at a meeting of the Committee as and when required;
- 10.3 obtain any information it requires from any employee of the Company or external third party in order to perform its duties;
- 10.4 to obtain, at the Company's expense, outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary;
- 10.5 publish in the Company's annual report, details of any issues that cannot be resolved between the Committee and the Board; and
- 10.6 request Internal Audit to carry out such independent reviews as it deems necessary and report back to the Committee.

11. Duties

11.1 *Financial Reporting*

11.1.1 The Committee shall monitor the Company's financial reporting process, and the integrity of the financial statements of the Company, including its annual (including any preliminary announcement of year end results) and half-yearly reports, trading updates and any other formal announcement relating to its financial performance. It shall review and report to the Board on significant financial reporting issues and judgements which the financial statements contain having regard to matters communicated to it by the external auditor. The Committee shall also review summary financial statements, significant financial returns to regulators and, if requested to do so by the Board, any financial information contained in certain other documents, such as announcements of a price sensitive nature. The Committee shall assist the Board by reviewing and, where appropriate, recommending to the Board the approval of any financial statements and regulatory reports requiring formal Board approval.

11.1.2 In particular, the Committee shall review and challenge where necessary:

- 11.1.2.1 the consistency of, and any changes to, significant accounting policies both on a year on year basis and across the Company;
- 11.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
- 11.1.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- 11.1.2.4 areas involving significant judgment, estimation or uncertainty and emerging issues;
- 11.1.2.5 significant adjustments resulting from the audit;
- 11.1.2.6 the basis for the going concern assumption;
- 11.1.2.7 regulation and compliance matters;
- 11.1.2.8 the clarity and completeness of disclosures in the annual report and financial statements and the context in which statements are made;
- 11.1.2.9 all material information presented within the financial statements, such as the business review and the corporate governance statements relating to the audit and to risk management; and
- 11.1.2.10 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.

11.1.3 The Committee shall consider any issues raised by executive management and the external auditor relating to the interim review and year end audits, and any matters the external auditor may wish to discuss (in the absence of management where necessary).

11.2 *Narrative Reporting*

11.2.1 The Committee shall 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.

11.3 *Regulatory Reporting*

11.3.1 The Committee will ensure that, where applicable, the Company complies with all necessary regulatory reporting including but not limited to reviewing arrangements established by management for compliance with regulatory financial reporting requirements, such as the requirements and recommendations of the relevant regulatory bodies (including the Financial Conduct Authority).

11.4 *Internal controls and risk management systems*

The Committee shall carry out the duties below for the Company, as appropriate:

11.4.1 where requested by the board, provide advice on how, taking into account the Company's position and principal risks, the Company's prospects have been assessed, over what period and why the period is regarded as appropriate. The Committee shall also advise on whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary;

11.4.2 keep under review the effectiveness of the Group's system of internal controls, including financial, operational and compliance controls, and to report to the Board on an annual basis; and

11.4.3 review and approve the statements to be included in the annual report and financial statements concerning internal controls and risk management.

11.5 *Fraud and bribery*

11.5.2 The Committee shall review the Company's procedures for detecting management fraud affecting financial reporting.

11.5.3 The Committee shall review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

11.6 *Internal audit:*

The Committee shall carry out the duties below for the Company, as appropriate:

- 11.6.1 make recommendations to the Board in relation to the appointment, reappointment and removal of the Internal Audit team and to approve the appointment or removal of the Head of Internal Audit;
- 11.6.2 review and approve the charter of the Internal Audit team and ensure that the function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 11.6.3 review and monitor the effectiveness of the Internal Audit team in the context of the Company's overall risk management system;
- 11.6.4 approve the annual Internal Audit programme, consider the major findings of internal audit investigations and management's response, and ensure co-ordination between the Internal Audit team and external auditors;
- 11.6.5 review promptly all reports on the Company from the Internal Auditors;
- 11.6.6 review and monitor management's responsiveness to the Internal Auditor's findings and recommendations;
- 11.6.7 meet with the Head of Internal Audit at least once a year, without any executive director or management present, to discuss the remit of the Internal Audit team and any issues arising from the internal audits carried out;
- 11.6.8 ensure the Head of Internal Audit has direct access to the Chair of the Board and the Chair of the Committee, and is accountable to the Committee; and
- 11.6.9 review annually the reporting systems of the Internal Audit team and ensure that the flow of information is appropriate and timely.

11.7 *External audit:*

The Committee shall carry out the duties below for the Company, as appropriate:

- 11.7.1 make recommendations to the Board, for it to put to shareholders for their approval in general meeting, in relation to the appointment, reappointment and removal of the external auditors;
- 11.7.2 approve the remuneration and terms of engagement of the external auditors;
- 11.7.3 review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional, ethical and regulatory requirements;
- 11.7.4 develop and implement a policy on the engagement of the external auditors to supply non-audit services, to avoid any threat to objectivity and

independence, taking into account any relevant ethical guidance on the matter and report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

- 11.7.5 discuss reservations arising from the interim and final audits and any matters which the external auditors may wish to discuss (in the absence of management where necessary);
- 11.7.6 assess at least annually the qualifications, expertise and resources of the external auditor and the effectiveness of the audit process,
- 11.7.7 if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 11.7.8 satisfy itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the external auditor's independence and objectivity;
- 11.7.9 agree with the Board a policy on the employment of former employees of the Company's external auditor, and monitor implementation of this policy;
- 11.7.10 seek to ensure co-ordination with the activities of the Company's internal audit function;
- 11.7.11 meet regularly with the external auditor, including once at the reporting stage of the interim review, once at the planning stage of the audit, once at the reporting stage of the audit, and at least once a year without management being present; to discuss their remit and any issues arising from the audit process;
- 11.7.12 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;
- 11.7.13 review the findings of the audit with the external auditor, which shall include but is not limited to:
 - 11.7.13.1 a discussion of the major issues which arose during the audit;
 - 11.7.13.2 key accounting and audit judgements;
 - 11.7.13.3 levels of errors identified during the audit; and
 - 11.7.13.4 the effectiveness of the audit process;
- 11.7.14 review any representation letter(s) requested by the external auditor before they are signed by management; and
- 11.7.15 review any management letter(s) and management's response to the external auditor's findings and recommendations.

12. Reporting responsibilities

- 12.1 The Chair of the Committee, or in their absence another Committee member, shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 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. Any such recommendation of the Committee shall take effect only if approved by the Board.
- 12.3 The Committee shall produce a report on its activities to be included in the Company's annual report and financial statements, which shall include a report from the Committee Chair. In doing so, the Committee should exercise judgement in deciding which of the issues it considers in relation to the annual report and 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 financial statements, but can 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 ongoing basis for all members;
- 13.3 give due consideration to laws and regulations, the provisions of the Code and the requirements of the Prospectus Rules and Disclosure Guidance and Transparency Rules and any other applicable rules, as appropriate;
- 13.4 be responsible for co-ordination of the internal audit function and the external auditors;
- 13.5 work and liaise as necessary with all other Board Committees;
- 13.6 oversee any investigation of activities which are within its terms of reference; and
- 13.7 review its own performance, constitution and terms of reference at least annually to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

Audit Committee Annual meeting schedule	Internal Auditor	External Auditor	Other
April	<ol style="list-style-type: none"> 1. Audit Progress Report 2. Status update: Audit Actions 	<ol style="list-style-type: none"> 1. Year-end Audit Committee paper, including internal control observations (11.7.13) 2. Letters of Representation (11.7.14) 3. Private session between External Auditor and Audit Committee members (11.7.11) 	<ol style="list-style-type: none"> 1. Review and recommend approval to the Board of the Annual Report and preliminary announcement (11.1.1, 11.1.2 and 11.2.1). 2. Formally recommend re-appointment of External Auditor to the Annual General Meeting (11.7.1) 3. Approve going concern statement (11.1.2.6) 4. Approve long term viability statement (11.4.1) 5. Approval of committee report for Annual Report (12.3) 6. Report by CFO of the use of the auditor for non-audit related activities. 7. Annual review of the non-audit work policy (11.7.4) 8. Assess the external auditor's 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 (11.7.3 and 11.7.8)
July	<ol style="list-style-type: none"> 1. Review the reporting systems of the Internal Audit Team and ensure that the flow of information is appropriate and timely (11.6.9) 2. Annual review of Internal Audit Performance in the context of the Company's overall risk management system (11.6.3) 3. Private session between Internal Audit Manager and Audit Committee members (11.6.7) 4. Audit Progress Report 5. Status update: Audit Actions 	<ol style="list-style-type: none"> 1. Review any management letter(s) and management's response to the external auditor's findings and recommendations (11.7.15) 	<ol style="list-style-type: none"> 1. Review of Audit Fee schedule (11.7.2) 2. Formal review of External Auditor's Performance (11.7.6)

Audit Committee	Internal Auditor	External Auditor	Other
October	<ol style="list-style-type: none"> 1. Audit Progress Report 2. Status update: Audit Actions 	<ol style="list-style-type: none"> 1. Interim Review Audit Committee paper 2. Letters of Representation 3. Private session between External Auditor and Audit Committee members (11.7.11) 	<ol style="list-style-type: none"> 1. Review and recommend approval to the Board of interim announcement. (11.1.1)
February	<ol style="list-style-type: none"> 1. Review and agree Internal Audit Charter (11.6.2) 2. Approval of Annual Internal Audit Plan including resource allocation and budget for next year. (11.6.4) 3. Audit Progress Report 4. Status update: Audit Actions 	<ol style="list-style-type: none"> 1. review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement (11.7.12) 2. Planning Paper for Year End audit 	<ol style="list-style-type: none"> 1. Annual Review of Audit Committee's constitution, terms of reference and standing agenda items (13.7) 2. Annual Review of Audit Committee performance (13.7) 3. Private session between Risk & Compliance Director and Audit Committee members (7.5)

(Numbers in brackets refer to the relevant section of the Committee's Terms of reference)

Standing Agenda items

Declarations of interest

Minutes

Action Points