

**ELECTRA PRIVATE EQUITY PLC**  
**Terms of reference for the Audit and Risk Committee**  
**4 December 2020**

**1. Membership**

1.1 The Committee shall comprise at least three members, all of whom shall be independent non-executive directors. The Committee shall include at least one member of the Valuations Committee. At least one member shall have recent and relevant financial experience and with competence in accounting and/or auditing. The Committee as a whole should have competence relevant to the sector in which the Company operates. The Chairman of the Board shall not be a member of the Committee.

1.2 Members of the Committee shall be appointed by the Board on the recommendation of the Nomination Committee and in consultation with the Chairman of the Audit and Risk Committee. Appointments shall be for a period of up to three years which may be extended for up to two additional three year periods, provided members continue to be independent and meet the criteria for membership of the Committee.

1.3 Only members of the Committee and other non-executive directors have the right to attend Committee meetings. However, the external auditor, Executive Chairman and Chief Financial Officer will be invited to attend meetings of the Committee on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.

1.4 The Board shall appoint the Committee Chairman. 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.

**2. Secretary**

The Company Secretary, or its 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.

**3. Quorum**

The quorum necessary for the transaction of business shall be two members.

**4. Frequency of meetings**

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

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

**5. Notice of meetings**

5.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of the Committee Chair, any of its members or at the request of the external audit lead partner if they consider it necessary.

5.2 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 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**

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

6.2 Draft minutes of Committee meetings shall be agreed with the Committee Chairman and then circulated promptly to all members of the Committee unless, exceptionally, it would be inappropriate to do so in the opinion of the Committee Chairman.

## **7. Engagement with Shareholders**

The Committee Chairman should attend the annual general meeting to answer shareholder questions on the Committee's activities. In addition, the Committee Chair should seek engagement with shareholders on significant matters related to the Committee's areas of responsibilities.

## **8. Duties**

The Committee should have oversight of the Group as a whole and unless required otherwise by regulation carry out the duties below for the parent Company, major subsidiary undertakings whose results are consolidated in the Group accounts. and the Group as a whole.

### **A: Audit matters**

#### **8.1 Financial reporting**

8.1.1 The Committee shall monitor the integrity of the consolidated financial statements of the Company, including its annual and half-yearly reports, interim management statements, and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor.

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

8.1.2.1 The application of, and any changes to, significant accounting policies;

8.1.2.2 The methods used to account for significant or unusual transactions where different approaches are possible;

8.1.2.3 Whether the Company has followed appropriate accounting policies and made appropriate estimates and judgements, taking into account the views of the external auditor on the financial statements; and

8.1.2.4 The clarity and completeness of disclosures in the financial statements and the context in which statements are made

8.1.2.5 All material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management.

8.1.3 The Committee shall review any other statements requiring board approval which contain financial information first, where to carry out a review prior to board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules or Disclosure Guidance and Transparency Rules sourcebook.

8.1.4 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.

## 8.2 Narrative reporting

The Committee should 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 and whether it informs the Board's statement in the annual report on these matters that is required under the Code.

## 8.3 Internal controls and risk management systems

The Committee shall:

8.3.1 Keep under review the Company's internal financial control systems that identify, assess, manage and monitor financial risks and other internal control and risk management systems; and

8.3.2 Review and approve the statements to be included in the annual report concerning internal control, risk management and the viability statement.

## 8.4 Compliance, speaking-up and fraud

The Committee shall:

8.4.1 Review the adequacy and security of the Company's arrangements for its employees and contractors 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;

8.4.2 Review the Company's procedures for detecting fraud;

8.4.3 Review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;

8.4.4 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

8.4.5 Review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Company's compliance function.

## 8.5 Internal audit

The Committee shall consider annually whether there should be an internal audit function and make a recommendation to the Board accordingly; the absence of such a function should be explained in the annual report.

## 8.6 External audit

The Committee is the body responsible for overseeing the Company's relations with the external auditor. The Committee shall:

8.6.1 Consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor;

8.6.2 Develop and oversee the selection procedure for the appointment of the audit firm, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process;

8.6.3 If an external auditor resigns, investigate the issues leading to this and decide whether any action is required;

8.6.4 Oversee the relationship with the external auditor. In this context the Committee shall :

8.6.4.1 Approve their remuneration, including both fees for audit and non-audit services, and ensure that the level of fees is appropriate to enable an effective and high quality audit to be conducted;

8.6.4.2 Approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

8.6.5 Assess annually the external auditor's independence and objectivity taking into account relevant UK law, regulation, the Ethical Standard and other professional requirements and the Group's relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services;

8.6.6 Satisfy itself that there are no relationships between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity ;

8.6.7 Agree with the Board a policy on the employment by the Company of former employees of the Company's auditor, taking into account the Ethical Standard and legal requirements and monitoring the implementation of this policy;

8.6.8 Monitor the auditor's processes for maintaining independence, its compliance with relevant UK law, regulations, other professional requirements and the Ethical Standard, including the guidance on rotation of audit partner and staff;

8.6.9 Monitor the level of fees paid by the Company to the external auditor compared with the overall fee income of the firm, office and partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standard;

8.6.10 Assess annually the qualifications, expertise and resources and independence of the auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;

8.6.11 Evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee; and

8.6.12 Develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the auditor, including approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements.

The policy should include consideration of the following matters:

8.6.12.1 Threats to the independence and objectivity of the external auditor and any safeguards in place;

8.6.12.2 The nature of the non-audit services;

8.6.12.3 Whether the external audit firm is the most suitable supplier of the non-audit service;

8.6.12.4 The fees for the non-audit service both individually and in aggregate relative to the audit fee; and

8.6.12.5 The criteria governing compensation;

8.6.13 Meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit;

8.6.14 Discuss with the external auditor the factors that could affect audit quality and 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;

8.6.15 Review the findings of the audit with the external auditor. This shall include but not be limited to, the following:

8.6.15.1 A discussion of any major issues which arose during the audit;

8.6.15.2 An explanation from the auditor of how the risks to audit quality were addressed;

8.6.15.3 Key accounting and audit judgements;

8.6.15.4 The auditor's view of their interactions with senior management; and

8.6.15.5 Levels of errors identified during the audit

8.6.16 Review any representation letter(s) requested by the external auditor before they are signed by management;

8.6.17 Review the management letter and management's response to the auditor's findings and recommendations; and

8.6.18 Review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor and the auditor's response to questions from the Committee.

## **B: Risk matters**

### 8.7 Risk appetite, tolerance and strategy

The Committee shall:

8.7.1 Advise the board on the Company's overall risk appetite, tolerance and strategy, and the principal and emerging risks the Company is willing to take in order to achieve its long term strategic objectives, taking account of the current and prospective macroeconomic and financial environment and drawing on financial stability assessments such as those published by relevant industry and regulatory authorities including the Bank of England, the Prudential Regulation Authority, the Financial Conduct Authority and other authoritative sources that may be relevant for the Company's risk policies.

The committee should seek assurance on the risks the company identifies as those to which the business may be exposed.

8.7.2 Advise the Board on the likelihood and the impact of principal risks materialising, and the management and mitigation of principal risks to reduce the likelihood of their incidence or their impact.

8.7.3 Advise the board on the risk aspects of proposed changes to strategy and strategic transactions including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focussing in particular on implications for the risk appetite, tolerance and strategy of the company, and taking independent external advice where appropriate and available.

### 8.8 Narrative reporting

The committee shall carry out the following duties to assist the board in fulfilling its reporting responsibilities in the annual report.

8.8.1 Monitor and review the effectiveness of the company's risk management and internal control systems.

8.8.2 Review the company's procedures to manage or mitigate principal risks and to identify emerging risks, to assist in the board's assessment of principal and emerging risks.

8.8.3 Review and assess the company's risk appetite and associated stress testing.

8.8.4 Evaluate the company's principal risks, to be taken into account by the board when assessing the company's prospects.

8.8.5 Review and approve the statements to be included in the annual report concerning internal controls and risk management.

## 8.9 Internal Controls and Risk Management Systems

The Committee shall oversee and seek suitable assurance regarding:

8.9.1 The risk exposures of the company, including risk to the company's business model, and solvency and liquidity risks.

8.9.2 The adequacy and effectiveness of the company's processes and procedures to manage risk and the internal control framework, including the design, implementation and effectiveness of those systems.

8.9.3 The ability of the company's risk management and internal control systems to identify the risks facing the company and enable a robust assessment of principal risks.

8.9.4 The company's capability to identify and manage new and emerging risks.

8.9.5 The effectiveness and relative costs and benefit of particular controls.

8.9.6 The effectiveness of management's processes for monitoring and reviewing the effectiveness of risk management and internal control systems and ensuring corrective action is taken when necessary.

8.9.7 The company's ability to reduce the likelihood of principal risks materialising and the impact on the business of risks that do materialise.

8.9.8 The appropriateness of the company's values and culture and reward systems for managing risk and internal controls, and the extent to which the culture and values are embedded at all levels of the company.

8.10 Work and liaise as necessary with all other Board Committees, ensuring the interaction between Committees and with the Board is reviewed regularly.

## 9. Reporting responsibilities

9.1 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:

9.1.1 The significant issues that it considered in relation to the financial statements (required under paragraph 8.1.1) and how these were addressed;

9.1.2 Its assessment of the effectiveness of the external audit process (required under paragraph 8.6.10), the approach taken to the appointment or reappointment of the external auditor, length of tenure of the audit firm, when a tender was last conducted and advance notice of any retendering plans; and

9.1.3 Any other issues on which the Board has requested the Committee's opinion.

9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

9.3 The committee shall provide advice to the remuneration committee on any risk weightings to be applied to performance objectives incorporated in the incentive structure

for executive remuneration and make recommendations to the remuneration committee on clawback provisions.

9.4 The Committee shall compile a report on its activities to be included in the Company's annual report. The report should include the work of the Committee, inter alia:

- an explanation of how the Committee has addressed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans;
- the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed,; an explanation of how auditor independence and objectivity are safeguarded if the external auditor provides non-audit services, having regard to matters communicated to it by the auditor and all other information requirements set out in the Code;
- details of the Company's risk management and strategy; and
- the risk management objectives and policies including in relation to financial instruments.

9.5 In the compiling the reports referred to in 9.1 and 9.4, 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 and the inputs to the Board's viability statement. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

## **10. Executive Committees**

10.1 The Committee shall establish such executive committees ("Executive Committee(s)") as it considers appropriate, which will report to the Committee, and will appoint the Chairman of each Executive Committee. The first such Committees were the Risk and Compliance Committee and the Financial Reporting Committee. With effect from 13 May 2019, these were amalgamated to become one committee, the Executive Committee.

10.2 The Terms of Reference for the Executive Committee will be reviewed and presented by the Chairman of the Executive Committee for approval by the Chairman of the Audit and Risk Committee at least once a year and as required.

10.3 Minutes of the meetings of the Executive Committee will be circulated, after approval by the Chairman of the Committee, to the Chairman of the Audit and Risk Committee, unless there is a conflict of interest.

10.4 The Committee may direct the Executive Committee to carry out any work that it considers appropriate.

## **11. Other matters**

The Committee shall:

11.1 Have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for advice and assistance as required;

11.2 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;

11.3 Give due consideration to relevant laws and regulations, the provisions of the Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure Guidance and Transparency Rules and any other applicable rules, as appropriate;

11.4 Oversee any investigation of activities which are within its terms of reference;

11.5 Be responsible for oversight of the coordination of the internal and external auditors

11.6 Work and liaise as necessary with all other Board Committees ensuring interaction between committees and with the board is reviewed regularly, taking particular account of the impact of risk management and internal controls on the work of other committees;

11.7 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 necessary to the Board.

## **12. Authority**

The Committee is authorised to:

12.1 Seek any information it requires from any employee of the Company in order to perform its duties;

12.2 Obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;

12.3 Call any employee to be questioned at a meeting of the Committee as and when required; and

12.4 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. If the Board has not accepted the Committee's recommendation on the external audit appointment, reappointment or removal, the annual report should include a statement explaining the Committee's recommendation and the reasons why the Board has taken a different position.

## **13. Adoption of terms of reference**

These terms of reference were approved by the Board of directors on 4 December 2020.