

## **FRP ADVISORY GROUP PLC**

### **TERMS OF REFERENCE OF THE AUDIT AND RISK COMMITTEE**

#### **1 MEMBERSHIP**

- 1.1 The board of directors of the Company (the "**Board**") has resolved to establish a committee of the Board to be known as the Audit and Risk Committee.
- 1.2 Members of the Audit and Risk Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the chair of the Audit and Risk Committee. Where possible, membership of the Audit and Risk Committee shall consist of at least three members, at least two of whom shall be independent non-executive directors. At least one of independent Non-Executive member of the Committee should have recent and relevant financial experience with competence in accounting and/or auditing. Where possible, the Committee membership shall include at least one member of the Remuneration Committee.
- 1.3 Only members of the Audit and Risk Committee have the right to attend committee meetings. However, the external audit lead partner, head of internal audit and finance director will be invited to attend meetings of the Audit and Risk Committee on a regular basis and other non-members may be invited to attend for all or part of any meeting, as and when appropriate and necessary.
- 1.4 Appointments to the Audit and Risk Committee shall be for a period of up to three years, which may be extended by no more than two additional periods of up to three years, provided the director still meets the criteria for membership of the Audit and Risk Committee.
- 1.5 The Board shall appoint the chair of the Audit and Risk Committee. In the absence of the Audit and Risk Committee chair and/or an appointed deputy at an Audit and Risk Committee meeting, the remaining members shall elect one of themselves to chair the meeting.

#### **2 SECRETARY**

The Company secretary or his or her nominee shall act as the secretary of the Audit and Risk Committee and will ensure that the Audit and Risk Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

#### **3 QUORUM**

The quorum necessary for the transaction of business shall be two members, one of whom shall have recent and relevant financial experience with competence in accounting and/or auditing.

#### **4 MEETINGS**

- 4.1 The Audit and Risk 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 Meetings may be held by video conference, telephone or by any other manner permitted by the Company's constitution.

- 4.3 If a matter being considered by the Audit and Risk Committee is one where a member of the Audit and Risk Committee, either directly or indirectly, has a personal interest, that member shall not be permitted to vote at the meeting.
- 4.4 Any action of the Audit and Risk Committee may also be taken by an instrument or instruments in writing signed by all of the members of the Audit and Risk Committee (including in counterparts) and any such action shall be as effective as if it had been decided at a meeting of the Audit and Risk Committee called for such purpose.
- 4.5 Outside of the formal meeting programme, the Audit and Risk Committee chair, and to a lesser extent the other Audit and Risk Committee members, will maintain a dialogue with key individuals involved in the Company's governance, including the Board chair, the chief executive, the finance director, the external audit lead partner and the head of internal audit.

## **5 NOTICE OF MEETINGS**

- 5.1 Meetings of the Audit and Risk Committee shall be called by the secretary of the Audit and Risk Committee at the request of any of its members or at the request of the external audit lead partner or head of internal audit 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 Audit and Risk 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 Audit and Risk 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 resolutions of all Audit and Risk Committee meetings, including the names of those present and in attendance and the existence of any conflicts of interest.
- 6.2 Draft minutes of Audit and Risk Committee meetings shall be circulated promptly to all members of the Audit and Risk Committee. Once approved, minutes should be circulated to all other members of the Board unless in the opinion of the Audit and Risk Committee chair it would be inappropriate to do so.

## **7 ANNUAL GENERAL MEETING**

The Audit and Risk Committee chair should attend the Company's annual general meeting to answer any shareholder questions on the Audit and Risk Committee's activities.

## **8 DUTIES**

The Audit and Risk Committee should have oversight of the group as a whole and, unless required by regulation, carry out the duties below for the parent Company, major subsidiary undertakings and the group as a whole.

### **8.1 Financial reporting**

- 8.1.1 The Audit and Risk Committee shall monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary

announcements and any other formal announcements relating to its financial performance, reviewing significant financial reporting issues and judgements contained in them. The Audit and Risk 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.

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

- (a) the application of significant accounting policies both on a year on year basis and across the Company/group and any changes to them;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
- (c) whether the Company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the views of the external auditor and the financial statements;
- (d) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
- (e) 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 Audit and Risk 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 AIM Rules for Companies.

8.1.4 Where the Audit and Risk 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**

Where requested by the Board, the Audit and Risk 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.

## 8.3 **Internal controls and risk management systems**

The Audit and Risk Committee shall:

- (a) oversee and advise the Board on the Company's overall risk exposures and strategy, including in relation to regulatory matters concerning the regulated activities undertaken by the Company and its subsidiaries;
- (b) where applicable, ensure the Company's and its subsidiaries' policies and procedures are in compliance with the regulatory standards imposed by the Financial Conduct Authority, the Insolvency Practitioners Association, the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Scotland and any other relevant regulatory bodies (as applicable);

- (c) keep under review the adequacy, effectiveness and independence of the Company's internal financial controls, internal risk assessment processes and internal control and risk management systems; and
- (d) review and approve the statements to be included in the annual report concerning internal controls and risk management.

#### 8.4 **Compliance, whistleblowing and fraud**

The Audit and Risk Committee shall:

- (a) 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 Audit and Risk Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate following up action;
- (b) review the Company's procedures for detecting fraud;
- (c) review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance; and
- (d) revise the adequacy and effectiveness of the Company's policies and controls relating to money-laundering, corporate criminal offence and data protection.

#### 8.5 **Internal audit**

The Company does not currently have an internal audit function. The decision on whether or not to set up an internal audit function shall be made by the Board on the recommendation of the Audit and Risk Committee (which shall consider annually whether there is a need for an internal audit), based on the growth of the Company, the scale, diversity and complexity of the Company's activities and the number of employees, as well as the cost and benefit considerations. If the Board recommends the appointment of an internal audit function, the Audit and Risk Committee shall:

- (a) approve the appointment and removal of the head of the internal audit function;
- (b) review and approve the annual internal audit plan to ensure it is aligned to the key risks of the business, and receive regular reports on work carried out;
- (c) ensure internal audit has unrestricted scope, the necessary resources and appropriate access to information to enable it to perform its function effectively, and is equipped to perform in accordance with appropriate professional standards for internal auditors;
- (d) ensure there is open communication between different functions within the Company and that the Company's internal audit function evaluates the effectiveness of these functions as part of the Company's internal audit plan;

- (e) ensure the internal auditor has direct access to the Audit and Risk Committee chair and to the chair of the Board and is accountable to the Audit and Risk Committee;
- (f) carry out an annual assessment of the effectiveness of the internal audit function, and as part of this assessment:
  - (i) meet with the head of internal audit at least once a year, without the presence of management to discuss their remit and any issues arising;
  - (ii) review and assess the annual internal audit work plan and receive a report on the results of the internal auditor's work;
  - (iii) determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and
  - (iv) review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function;
- (g) monitor and assess the role and effectiveness of the internal audit function in the overall context of the Company's overall risk management system; and
- (h) consider whether an independent, third party review of processes is appropriate.

## 8.6 **External Audit**

### 8.6.1 The Audit and Risk Committee shall:

- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the Company's annual general meeting, in relation to the appointment, reappointment and removal of the Company's external auditor;
- (b) develop and oversee the selection process for the appointment of any new external auditor by the Company, ensuring that all tendering firms have access to all necessary information and individuals during the duration of the tendering process;
- (c) if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (d) oversee the relationship with the external auditor. In this context the Audit and Risk Committee shall:
  - (i) 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; and
  - (ii) approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- (e) assess annually the external auditor's independence and objectivity taking into account relevant professional and regulatory 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;

- (f) 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;
- (g) agree with the Board a policy on the employment of former employees of the Company's auditor, taking into account any relevant ethical standard and legal requirements, and monitor the implementation of this policy;
- (h) monitor the auditor's compliance with relevant legislation and ethical and professional guidance on the rotation of audit partners and the level of fees paid by the Company compared to the overall fee income of the firm and other related requirements;
- (i) assess annually the qualifications, expertise and resources of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
- (j) seek to ensure coordination of the external audit with the activities of the internal audit function;
- (k) evaluate the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of withdrawal of their auditor from the market in that evaluation;
- (l) develop and implement a policy on the provision of non-audit services by the auditor, including approval of non-audit services by the Audit and Risk 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:
  - (i) threats to the independence and objectivity of the external auditor and any safeguards in place;
  - (ii) the nature of the non-audit services;
  - (iii) whether the external audit firm is the most suitable supplier of the non-audit service;
  - (iv) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
  - (v) the criteria governing compensation;
- (m) 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;
- (n) discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent

with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;

- (o) review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
  - (i) a discussion of any major issues which arose during the audit;
  - (ii) the auditor's explanation of how the risks to audit quality were addressed;
  - (iii) key accounting and audit judgements;
  - (iv) the auditor's view of their interactions with senior management;
  - (v) levels of errors identified during the audit; and
  - (vi) the effectiveness of the audit process;
- (p) review any representation letter(s) requested by the external auditor before they are signed by management;
- (q) review the management letter and management's response to the auditor's findings and recommendations; and
- (r) 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 Audit and Risk Committee.

## 9 **REPORTING RESPONSIBILITIES**

- 9.1 The Audit and Risk Committee chair 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. The report shall include:
  - (a) the significant issues that the Audit and Risk Committee considered in relation to the financial statements, and how these issues were addressed;
  - (b) the assessment of the effectiveness of the external audit process and its recommendations on the appointment or reappointment of the external auditor;
  - (c) any other issues on which the Board has requested the Audit and Risk Committee's opinion.
- 9.2 The Audit and Risk Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvements is needed.
- 9.3 The Audit and Risk Committee shall compile a report on its activities to be included in the Company's annual report. The report should include an explanation of:
  - (a) how the Audit and Risk Committee has addressed the effectiveness of the external audit process;

- (b) the Company's risk management and strategy and any risk management objectives and policies;
- (c) the significant issues that the Audit and Risk Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor;
- (d) an explanation of how auditor objectivity and independence is safeguarded; and
- (e) all other information requirements set out in the QCA Corporate Governance Code (the "**QCA Code**").

9.4 In compiling the reports referred to in 9.1 and 9.3, the Audit and Risk Committee should exercise judgment 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. 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 **OTHER MATTERS**

The Audit and Risk Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company secretary for assistance as required;
- (b) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;
- (c) give due consideration to laws and regulations, the provisions of the QCA Code, the QCA's Audit and Risk Committee Guide for Smaller Quoted Companies, the requirements of the AIM Rules for Companies, the Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules, as appropriate;
- (d) be responsible for co-ordination of the internal and external auditors;
- (e) oversee any investigation of activities which are within its terms of reference;
- (f) work and liaise as necessary with all other Board committees; and
- (g) 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.

## 11 **AUTHORITY**

The Audit and Risk Committee is authorised to:

- (a) exercise all or any of the authorities, powers and discretions vested in or exercisable by the Audit and Risk Committee at a duly convened meeting of the Audit and Risk Committee at which a quorum is present;



- (b) seek any information it requires from any employee or director of the Company in order to perform its duties;
- (c) examine any activity within its terms of reference and is authorised to have unrestricted access to the Company's external auditors and to obtain, at the Company's expense, independent legal, accounting or other professional advice on any matters within its terms of reference;
- (d) call any employee or director to be questioned at a meeting of the Audit and Risk Committee as and when required; and
- (e) have the right to publish in the Company's annual report, details of any issues that cannot be resolved between the Audit and Risk Committee and the Board.

Approved by the Board July 2020