

**Alfa Financial Software Holdings PLC**  
**Terms of Reference of The Audit and Risk Committee of The Board of Directors**  
**of The Company**

adopted by the board on 15 May 2017

**1. Background**

- 1.1 The board has resolved to establish an audit and risk committee. These terms of reference replace any previous terms of reference for any audit and risk committee of the board.
- 1.2 The board has delegated to the committee responsibility for overseeing the financial reporting and internal financial controls of Alfa Financial Software Holdings PLC (the “**Company**”) and its subsidiaries (collectively, the “**Group**”), for reviewing the group’s internal control and risk management systems, and for maintaining an appropriate relationship with the external auditor of the group.

**2. The Committees Duties**

The committee performs the following duties for the Company, its major subsidiary undertakings and the group as a whole, as appropriate.

**Corporate Governance Code**

- 2.1 To give due consideration to laws and regulations including the general duties of directors set out in the Companies Act 2006, the provisions of the UK Corporate Governance Code, the requirements of the Financial Conduct Authority’s Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules and any other applicable rules, as appropriate.

**Financial reporting**

- 2.2 To monitor the integrity of the Company’s financial statements, including its annual and half-yearly reports, any interim management statements, any preliminary results announcements and any other formal announcements relating to its financial performance, and to review and report to the board on significant financial reporting issues and judgements which they contain (having regard to matters communicated to it by the external or the internal auditor).
- 2.3 To review significant financial returns to regulators and any significant financial information contained in other documents.
- 2.4 To review and challenge where necessary:
- (a) the consistency of, and any changes to, significant accounting policies on a year on year basis, across the Company and the Group;
  - (b) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (c) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - (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, such as the strategic report, the business review/operating and financial review, the corporate governance

statement (insofar as it relates to the audit and risk management) and the internal control and risk management statement.

- 2.5 To assess the effectiveness of the group's financial reporting procedures.
- 2.6 The Committee shall perform an annual review of the Group's accounting policy manual to ensure that it is up to date with reference to current relevant accounting policies and the latest guidance from the Financial Reporting Council.
- 2.7 Where the committee is not satisfied with any aspect of the group's financial reporting, to report its views to the board.
- 2.8 To 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 position and performance, business model and strategy.
- 2.9 To review if practicable other statements containing financial information that require board approval.

### **Internal audit**

- 2.10 To review and approve the role and mandate of the group's internal audit function (whether undertaken internally or externally) and monitor and review the effectiveness of its work, in the context of the Company's overall risk management system.
- 2.11 To review and assess the annual internal audit plan and internal audit charter.
- 2.12 To ensure that there is open communication and that internal audit function evaluates the effectiveness of the risk, compliance and finance functions as part of its internal audit plan.
- 2.13 To consider and approve the remit of the internal audit function, and to ensure it:
  - (a) has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards for internal auditors; and
  - (b) has adequate standing and is free from management or other restrictions.
- 2.14 To approve the appointment and removal of the head of the internal audit function or the outsourced service firm.
- 2.15 To ensure the internal auditor is accountable to the committee and has access to any member of the Board.
- 2.16 To review reports addressed to the committee from the internal auditor.
- 2.17 To review and monitor management's responsiveness to the findings and recommendations of the internal auditor.
- 2.18 To meet the head of internal audit at least once a year, without management present, to discuss their remit and any issues arising from the internal audit reviews.

### **External audit**

- 2.19 To work with the Chief Financial Officer in making recommendations to the board on the appointment, remuneration or removal of the group's external auditor which will be put to shareholders for approval at the Company's Annual General Meeting.

- 2.18 In the event that a vacancy or change in the external auditor occurs, the Committee will consider conducting a formal, selective tendering process.
- 2.19 To ensure that, in accordance with the mandatory re-tendering rules implemented by the UK Competition and Markets Authority (CMA), at least once every ten years the audit services contract is put out to tender 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, to oversee the selection process for new external auditors and initiate and supervise any competitive tender process undertaken by the company for the provision of external audit services. In making any recommendation, the Committee will consider involving certain senior executives to comment on tender responses received.
- 2.20 To investigate the issues leading to any resignation of an external auditor and decide whether any action is required.
- 2.21 To review the independence of the external auditor annually.
- 2.22 To duly consider the ratio of audit to non-audit fees in the period and projected for that financial year end. If, in the view of the Committee, the level of fees being paid to the external auditor for audit or non-audit related service, either severally or in the aggregate, are of a magnitude that could impair, or be perceived to impair, auditor independence, the Committee may impose a restriction on the services being awarded to the external auditor.
- 2.23 To oversee the relationship with the external auditor, including but not limited to:
- (a) negotiating and agreeing for and on behalf of the board the external auditor's remuneration, including fees for audit and non-audit services and ensuring that the fees are appropriate to enable an effective and high quality audit to be conducted;
  - (b) negotiating and agreeing for and on behalf of the board the terms of any agreement or any renewed agreement with the external auditor and the scope of the audit;
  - (c) reviewing and agreeing the engagement letter issued by the external auditor at the start of each audit and the scope of the external audit, arranging additional work as appropriate;
  - (d) influencing the appointment of the individual identified by the external auditor as being primarily responsible for the conduct of the audit;
  - (e) monitoring and reviewing the external auditor's independence and objectivity, and the effectiveness of the audit process, taking into account relevant legal, professional and regulatory requirements and the relationship with the external auditor as a whole;
  - (f) specifying a policy for the pre-approval of permitted non-audit services including setting materiality thresholds based on the value of the proposed non-audit service engagements;
  - (g) authorising to the extent permitted by law and regulations the external auditor to provide non-audit services to the company or group before the commencement of the non-audit services;
  - (h) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the group other than in the ordinary course of business which adversely affect its independence and objectivity, including setting and maintaining a policy on the committee's assessment of the auditor's independence and the effect of non-audit services on audited financial statements;

- (i) monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners (currently every 5 years).
  - (j) assessing annually the external auditor's qualifications, expertise and resources and the effectiveness of the audit process, taking into account relevant professional and regulatory requirements, which must include a report from the external auditor on its own internal quality control procedures, with a recommendation on whether to propose to shareholders that the external auditors be reappointed;
  - (k) seeking to ensure co-ordination between the external auditor and the internal audit function; and
  - (l) evaluating the risks to the quality and effectiveness of the financial reporting process
- 2.24 To 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 to meet the external auditor at least once a year without management present to discuss the auditor's remit and any issues arising from the audit.
- 2.25 To 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.
- 2.26 To review the analyst presentations to be made relating to the annual and half-year results.
- 2.27 Half yearly reports on the provision of auditing and related services are provided to the Board through the Committee. The Committee reviews these reports and satisfies itself that any non-audit services do not compromise the external auditor independence.
- 2.28 To review the findings of the audit with the external auditor, including but not limited to:
- (a) any significant issues which arose during the audit;
  - (b) key accounting and audit judgements;
  - (c) the level of errors identified during the audit;
  - (d) the effectiveness of the audit process;
  - (e) the basis for the going concern assumption;
  - (f) compliance with relevant financial reporting standards and relevant financial and governance reporting requirements; and
  - (g) interactions between the external audit team and senior management and other members of the finance team.
- 2.29 To discuss any difficulties, reservations or other matters arising from the external audit (in the absence of management where necessary).
- 2.30 To review any representation letter(s) requested by the external auditor before they are signed by management, considering in particular any representation on a non-standard matter.
- 2.31 To review the management letter and management's response to the external auditor's findings and recommendations.
- 2.32 To ensure that the external auditor is not placed in a position to audit its own work.
- 2.33 To review the performance of the external auditor.
- 2.35 To review the External Auditor Independence Policy on an annual basis.

## **Risk management systems and internal control**

- 2.36 To monitor and keep under review the adequacy and effectiveness of the group's internal financial controls and internal control and risk management systems, including a review of the group's risk management framework, which will be formally approved by the Committee on an annual basis in the first quarter of each financial year.
- 2.37 To monitor and keep under review the policies and overall process for identifying and assessing business risks and managing their impact on the Company and the group, including receiving reports and other information relating to such risks.
- 2.38
- 2.39 To receive and review regular assurance reports from management, internal audit, external audit and others on matters related to risk and control and review the timeliness of, and reports on, the effectiveness of corrective action taken by management.
- 2.40 To recommend to the Board statements to be made in the annual report and any half yearly reports about the adoption of the going concern basis of accounting and the identification of any material uncertainties in the company's ability to continue to do so.
- 2.41 To recommend to the Board statements to be made in the annual report about its assessment of the principal risks facing the company and how they are being managed and mitigated.
- 2.42 To recommend to the Board statements to be made in the annual report about its assessment of the company's prospects and its expectations as to the company's viability.
- 2.43 To oversee and advise the board on the current risk exposures of the Company and the group and future risk strategy.
- 2.44 To review the Company's capability to identify and manage new types of risk.
- 2.45
- 2.46 To consider and approve the remit of the risk management function and ensure it:
- (a) has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards;
  - (b) has adequate independence and is free from management and other restrictions; and
  - (c) is able to identify and manage new risk types.
- 2.47 To keep under review the group's overall risk assessment processes (including but not limited to the adequacy, effectiveness and independence thereof) that inform the Board's decision making, ensuring both qualitative and quantitative metrics are used.
- 2.48 To review reports on and monitor the resolution of any material breaches of risk limits or other risk or regulatory issues.
- 2.49 To monitor any material issues that arise or which the committee considers likely to arise in relation to the reputational risk to the Company.

## **Whistleblowing, fraud, bribery and other compliance**

- 2.50 To review the group's arrangements for its employees and contractors to raise concerns, in confidence, about possible improprieties in financial reporting or other matters, with the aim of ensuring that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

- 2.51 To review the group's policies and procedures for preventing and detecting fraud, its systems and controls for preventing bribery, its code of corporate conduct/business ethics and its policies for ensuring that the group complies with relevant regulatory and legal requirements, receive reports and consider appropriate action.
- 2.52 To review the Company's gifts and entertainment registers and expenses of directors and senior management.
- 2.53 To review the Company's procedures relating to the prevention of financial malpractice, specifically compliance with the Bribery Act, and to note any material issues which arise and monitor their resolution.

### **Other**

- 2.54 To review other disclosures and documents as required by the board.

## **3. Composition**

- 3.1 The committee must have at least three members. Members of the committee are appointed by the board on the recommendation of the nomination committee in consultation with the chairman of the audit and risk committee.
- 3.2 All members of the committee must be independent non-executive directors. The chairman of the board may not be a member of the committee. If the board decides that a member of the committee is no longer independent, that member will cease to be a member of the committee.
- 3.3 At least one member of the committee must have been determined by the board to have recent and relevant financial experience.
- 3.4 Only members of the committee have the right to attend committee meetings, but the committee may invite others to attend all or part of any meeting if it thinks it is appropriate or necessary.
- 3.5 Appointments to the committee are for a period of up to three years, extendable for further three-year periods, provided the director still meets the criteria for membership of the committee.
- 3.6 The board appoints the chairman of the committee, who must be an independent non-executive director. In the absence of the committee chairman and/or an appointed deputy, the remaining members present may elect one of their number to chair the meeting.
- 3.7 The external auditor will be invited to attend meetings of the Committee on a regular basis.

## **4. Quorum**

- 4.1 The quorum necessary for the transaction of business is two members.
- 4.2 A duly convened meeting of the committee at which a quorum is present is competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the committee.

## **5. Meeting administration**

- 5.1 The committee must meet as often as it deems necessary but in any case at least three times a year, at appropriate times in the financial reporting and audit cycle, at such times and places determined by the committee chairman. The committee must approve the annual calendar of

its meetings. Additional meetings may be called by the committee chairman. The committee may hold meetings by telephone or using any other method of electronic communication, and may take decisions without a meeting by unanimous written consent, when deemed necessary or desirable by the chairman.

- 5.2 Meetings of the committee are called by the secretary of the committee at the request of any of its members or at the request of the external or internal auditor.
- 5.3 Unless otherwise agreed by all committee members, notice of each meeting confirming the venue, time and date (and dial-in details if required) of the meeting must be sent, with an agenda of the items to be discussed and any supporting papers, to each member of the committee, any other person required to attend the meeting and all other non-executive directors, as soon as practicable, and in any event no later than five working days before the date of the meeting.
- 5.4 Outside the formal meeting programme, the committee chairman must maintain a dialogue with key individuals involved in the Company's governance, including the board chairman, the chief executive officer, the chief financial officer, the external audit lead partner and the head of internal audit.

## **6. Secretary**

- 6.1 The company secretary or such person as the company secretary nominates acts as the secretary of the committee.
- 6.2 The secretary must ensure that the committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.
- 6.3 The secretary must minute the proceedings and resolutions of all meetings of the committee, including recording the names of those present and in attendance.
- 6.4 Draft minutes of committee meetings must be sent promptly to all members of the committee. Once approved, minutes must be sent to all members of the board, unless the chairman of the committee thinks it is inappropriate to do so.

## **7. Self-evaluation**

The committee must review its own performance, composition and terms of reference at least once a year and recommend to the board any changes it considers necessary or desirable.

## **8. Reporting responsibilities**

- 8.1 After each committee meeting, the chairman must report formally to the board on the committee's proceedings and on how it has discharged its duties and responsibilities.
- 8.2 The committee may make such recommendations to the board it deems appropriate on any area within its remit where action or improvement is desirable.
- 8.3 The committee chairman must attend the Company's annual general meeting and respond to any shareholder questions on matters within the committee's area of responsibility, as directed by the chairman of the annual general meeting.
- 8.4 The committee must compile a report to shareholders to be included in the Company's annual report. The report must explain:
  - (a) the role and work of the committee, including the number of committee meetings held in the relevant period;

- (b) the significant issues that the committee considered in relation to the financial statements and how these issues were addressed;
- (c) how the committee has addressed the effectiveness of the external audit process;
- (d) the approach taken to the appointment or reappointment of the external auditor
- (e) the length of tenure of the current external auditor, the current audit partner name and for how long the person has acted as audit partner and when a tender was last conducted;
- (f) if the external auditor provides non-audit services, (1) the committee's policy for approval of non-audit services and how auditor objectivity and independence are safeguarded, (2) the audit fees for the statutory audit of the company's consolidated financial statements paid to the external audit firm and its network firms for audit-related services and non-audit services, including the ratio of audit to non-audit fees; and (3) for each significant engagement or category of engagements, what service is provided and why the committee decided that it was in the company's interests to buy them from the external auditor;
- (g) provide the information that the report is required to contain in relation to a financial year in which there has been no competitive tender process for the appointment of the external auditor; and
- (h) make any statement of compliance required by law or regulations.

8.5 The committee must produce a statement discussing the Company's risk management to be included in the company's annual report.

8.6 The committee must produce such other reports or documents relating to the Group's risk management and compliance as may be required or requested by any applicable legal or regulatory authority.

8.7 In compiling the reports referred to in 8.1 and 8.5, the committee must exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but must include at least those matters that have informed the board's assessment of whether the Company is a going concern and its long term viability. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

## **9. Other matters**

The committee must:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required on all committee matters;
- (b) be given appropriate and timely training, in the form of an induction programme for new members and on an ongoing basis for all members;
- (c) be responsible for co-ordination of the external and the internal auditor;
- (d) oversee any investigation of activities which are within its terms of reference; and
- (e) work and liaise as necessary with all other board committees.



## 10. Authority

The board authorises the committee to:

- (a) undertake any activity within its terms of reference;
- (b) seek any information from any group employee, contractor, consultant or other provider of services to the Company (including legal and tax advisers) to enable it to perform its duties;
- (c) obtain external legal or other professional advice on any matter within its terms of reference at the Company's expense, and to invite persons giving such advice to attend committee meetings;
- (d) call any group employee, contractor, consultant or other provider of services to be questioned at a committee meeting, as and when required;
- (e) publish in the Company's annual report details of any issues that have not been resolved between the committee and the board; and
- (f) delegate any of its powers to one or more of its members or the secretary (while being mindful of the committee's duties under these terms of reference).