

# Mutual Energy Limited Audit Committee Terms of Reference

February 2019

## 1. Membership

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- 1.1 Members of the committee shall be appointed by the board in consultation with the chairman of the audit committee. The committee shall be made up of at least 3 members.
- 1.2 All members of the committee shall be independent non-executive directors at least one of whom shall have recent and relevant financial experience. The Committee should have a range of skills, experience, knowledge and professional qualifications to meet the requirements of the UK Corporate Governance Code and have competence relevant to the energy sector. The Chairman of the Board shall not be a member of the committee.
- 1.3 Only members of the committee have the right to attend meetings. However other individuals such as the chairman of the board, chief executive, finance director and other directors may be invited to attend all or part of any meeting as and when appropriate.
- 1.4 The external auditors will be invited to attend meetings of the committee on a regular basis.
- 1.5 Appointments to the committee shall be for a period of up to three years, which may be extended for two further three year periods, provided the director still meets the criteria for membership.
- 1.6 The board shall appoint the committee chairman who shall be an independent non-executive director. 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

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- 2.1 The company secretary or their nominee shall act as the secretary of the committee.

## 3. Quorum

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- 3.1 The quorum necessary for the transaction of business shall be 2 members. A duly convened meeting of the committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the committee.

## 4. Frequency of meetings

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- 4.1 The committee shall meet at least three times a year at appropriate times in the reporting an audit cycle and otherwise required. Sufficient intervals should be allowed between audit committee and Board meetings to allow any work arising from the audit committee meeting to be carried out and reported as appropriate.

## 5. Notice of meetings

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- 5.1 Meetings of the committee shall be called by the secretary of the committee at the request of any of its members or at the request of external auditors if they consider 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, any other person required to attend and all other non-executive directors, no later than 3 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 meeting

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- 6.1 The secretary shall minute the proceedings and resolutions of all meetings of the committee, including recording the names of those present and in attendance.
- 6.2 Minutes of committee meetings shall be circulated promptly to all members of the committee and, once agreed, to all members of the board, unless a conflict of interest exists.

## 7. Annual General Meeting

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- 7.1 The chairman of the committee shall attend the Annual General meeting prepared to respond to any members questions on the committee's activities.

## 8. Roles and responsibilities

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The committee shall carry out the duties below for the parent company, major subsidiary undertakings and group as a whole, as appropriate.

### **8.1 Financial reporting**

- 8.1.1 The committee shall monitor the integrity of the financial statements of the company, including its annual and half-yearly reports, interim management statements and any other formal announcement relating to its financial performances, reviewing significant financial reporting issues and judgements which they contain.
- 8.1.2 The committee shall review and challenge where necessary
- 8.1.2.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the company/group;
  - 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 standards and

made appropriate estimates and judgements, taking into account the views of the external auditor;

8.1.2.4 the clarity of disclosure in the company's financial reports (including those in relation to internal control, risk management and the viability statement) and the context in which statements are made; and

8.1.2.5 all material information presented with the financial statements, such as the strategic report and the corporate governance statement (insofar as it relates to the audit and risk management).

8.1.3 The committee shall review the content of the annual report and accounts and advise the Board as to whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for members to assess the company's performance, business model and strategy.

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

The committee shall

8.2.1 keep under review the effectiveness of the company's internal controls and risk management systems; and

8.2.2 review and approve the statement to be included in the annual report concerning internal controls and risk management.

## **8.3 Whistle blowing and fraud**

The committee shall

8.3.1 review the company's arrangement for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or on other matters.

The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;

8.3.2 review the company's procedures for detecting fraud; and

8.3.3 review the company's systems and controls for the prevention of bribery and receive reports on non-compliance.

## **8.4 Internal audit**

The committee should consider annually whether there should be one and make a recommendation to the board accordingly. The absence of such a function should be explained in the annual report.

## **8.5 External Audit**

The committee shall:

8.5.1 consider and make recommendations to the board, to be put to members for approval at the AGM, in relation to the appointment re-appointment and removal of the company's external auditor. The committee shall oversee the selection process for new auditors and if an auditor resigns the committee shall investigate the issues leading to this and decide whether any action is required;

8.5.2 oversee the relationship with the external auditor including (but not limited to)

- 8.5.2.1 recommendations on their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
  - 8.5.2.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 8.5.2.3 assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole including the provision of any non-audit services;
  - 8.5.2.4 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the company (other than in the ordinary course of business);
  - 8.5.2.5 agreeing with the board a policy on the employment of former employees of the company's auditor, then monitoring the implementation of this policy
  - 8.5.2.6 monitoring the audit's compliances with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements;
  - 8.5.2.7 assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedure;
- 8.5.3 meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The committee shall meet the external auditor at least once a year, without management being present; to discuss their remit and any issues arising from the audit;
- 8.5.4 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- 8.5.5 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- 8.5.5.1 a discussion of any major issues which arose during the audit;
  - 8.5.5.2 any accounting and audit judgements;
  - 8.5.5.3 levels of errors identified during the audit;
  - 8.5.5.4 the effectiveness of the audit.

The committee shall also review the effectiveness of the audit:

- 8.5.6 review any representation letter(s) requested by the external auditor before they are signed by management;
- 8.5.7 review any management letter and management's response to the auditor's findings and recommendations; and
- 8.5.8 develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

## **8.6 Reporting responsibilities**

- 8.6.1 The committee chairman shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities.

- 8.6.2 The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.
- 8.6.3 The committee shall compile a report to members on its activities to be included in the company's annual report.

## **8.7 Other matters**

The committee shall:

- 8.7.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 8.7.2 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;
- 8.7.3 give to due consideration to laws and regulations, the provisions of the Combined Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules as appropriate;
- 8.7.4 oversee any investigation of activities which are within its terms of reference and act for internal purpose as a court of the last resort;
- 8.7.5 at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval;

## **9. Reporting to the Board**

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- 9.1 The committee shall report to the Board on how it has discharged its responsibilities, including:
  - 9.1.1 the significant issues and judgements that it considered in relation to the financial statements and how these issues were addressed;
  - 9.1.2 its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
  - 9.1.3 any other issues on which the board has requested the committee's opinion. In doing so it should identify any matters in respect of which it considers that action or improvement is needed, whether the subject of a specific request by the board or not, and make recommendations as to the steps to be taken.

## **10. Communications with Members**

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- 10.1 The terms of reference of the audit committee, including its role and the authority delegated to it by the board, should be made available. A separate section in the annual report should describe the work of the committee in discharging those responsibilities.
- 10.2 The audit committee section should include, inter alia:
  - 10.2.1 a summary of the role of the audit committee;
  - 10.2.2 the names and qualifications of all members of the audit committee during the period;

- 10.2.3 the number of audit committee meetings;
  - 10.2.4 the significant issues that the committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditors;
  - 10.2.5 an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm, when a tender was last conducted, and any contractual obligations that acted to restrict the audit committee's choice of external auditors; and
  - 10.2.6 if the external auditor provides non-audit services, how auditor objectivity and independence is safeguarded.
- 10.3 The committee will need to exercise judgement in deciding which of the issues it considered 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 committee should aim to describe the significant issues in a concise and understandable form. The statement need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

## 11. Authority

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The committee is authorised:

- 11.1 to seek any information it requires from any employee of the company in order to perform its duties;
- 11.2 to obtain, at the company's expense, outside legal or other professional advice on any matter within its terms of reference;
- 11.3 to call any employee to be questioned at a meeting of the committees as and when required; and
- 11.4 to 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.