



Investment works

## **CDC GROUP PLC (THE “COMPANY”)**

### **TERMS OF REFERENCE OF THE AUDIT AND COMPLIANCE COMMITTEE OF THE BOARD**

#### **(1) NAME**

Audit and Compliance Committee (“Committee”).

#### **(2) MEMBERSHIP**

- (a) The Committee will consist of no less than three non-executive director members (“Members”) appointed by the Board. Where possible, one Member shall also be a member of the People Development and Remuneration Committee and one Member shall also be a member of the Risk Committee.
- (b) All members of the committee shall be independent non-executive directors of whom one shall have recent and relevant financial experience and with competence in accounting and/or auditing.
- (c) The Members are:

Wim Borgdorff  
Valentine Chitalu  
Keki Mistry  
Graham Wrigley

- (d) The Board shall appoint the chair of the Committee (“Chair”).

The Chair is:  
Valentine Chitalu

#### **(3) QUORUM**

Two Members.

#### **(4) SECRETARY**

The secretary of the Committee shall be CDC’s Company Secretary or his or her nominee (“Secretary”).

#### **(5) VOTING**

Decisions shall be made by a majority of those voting with the Chair of the Committee holding the carrying vote in the event that there is a tie.

**(6) RESOLUTIONS IN WRITING**

A resolution in writing signed by all the Members entitled to receive notice of a meeting shall be as valid and effectual as if it had been passed at a meeting of the Committee duly convened.

**(7) FREQUENCY AND NOTICE OF MEETINGS**

- (a) Meetings of the Committee shall be held as required, but not less than three times each year.
- (b) Outside of the formal meeting programme, the Chair will maintain a dialogue with key individuals involved in the Company's governance including the Board Chairman, the Chief Executive, Chief Financial Officer, the external audit lead partner and the head of internal audit.
- (c) The Secretary shall give notice of meetings to the Members and the Chief Executive Officer and Chief Financial Officer.

**(8) ATTENDANCE AT MEETINGS AND ACCESS TO THE COMMITTEE**

- (a) Only Members and the Secretary shall be entitled to attend meetings of the Committee.
- (b) Any other person may attend with agreement of the Chair. The Secretary shall maintain a list, which shall be reviewed and agreed from time to time, of the staff who are expected to attend the meetings.
- (c) The Committee shall maintain an open door policy allowing all employees of the Company to bring any matters relevant to the Committee's work to the attention of the Committee and its Chair.
- (d) As a matter of good practice the external auditors shall attend each Committee meeting.

**(9) AUTHORITY**

The Committee is authorised by the Board:

- (a) to investigate any matters relevant to the fulfilment of its duties;
- (b) to seek any information it requires from any employee of the Company and any subsidiary of the Company and all such employees are directed to co-operate with any such request made by the Committee;
- (c) to obtain external legal or other independent professional advice and to secure the attendance of external advisors at its meetings (if it considers this necessary).

## **10) GUIDING PRINCIPLE**

The Committee shall be guided in all its decisions by:

- (a) the purpose of assisting the Board in its oversight of the integrity of CDC's financial statements, legal and regulatory compliance, the independent auditor's qualifications and independence, and the performance of CDC's internal audit function and of the independent auditors; and
- (b) the goal of continuous strengthening of governance and enhancement of Audit and Compliance Committee oversight.

## **(11) DUTIES**

The Committee shall have oversight of the Company, its major subsidiaries and the group as a whole (the "Group"). The duties of the Committee shall be:

### **Public Reporting**

- (a) to review and monitor the integrity of the financial statements of the Company and the Group together with any letters in respect thereof to the external auditors, prior to their submission to the Board for approval, focusing particularly, in relation thereto, on:
  - (i) the application of and any changes in accounting policies and practices;
  - (ii) major judgmental issues;
  - (iii) significant adjustments resulting from the work of the external auditors;
  - (iv) the going concern assumption;
  - (v) internal control policies and compliance therewith;
  - (vi) compliance with accounting standards;
  - (vii) compliance with legal and any other requirements;
  - (viii) the strategic report and corporate governance statements; and
  - (ix) any relevant narrative reporting when requested to do so by the CDC Board.
- (b) to review the Company's investment valuation policy and to monitor the application thereof to the Company's investments;
- (c) to review the accounting policies and the consistency of their application both on a year to year basis and across the CDC group of companies;

## **Internal Control**

- (d) to assess the effectiveness of the internal control systems of the Company and any portfolio managers appointed by reference to the adequacy of those systems in relation to the risks (both financial and non-financial) faced by the Company and to ensure periodic review of such risks;
- (e) to review the Company's statements on internal control systems and compliance with the reports referred to in paragraph 11 (a) above prior to their endorsement by the Board and, in particular, to review the external auditors' management letter and management's response thereto;
- (f) to discuss and consider any matters the external auditors wish to raise;
- (g) to review regular reports from the Compliance and Money Laundering Reporting Officer on the adequacy and effectiveness of the Company's compliance and anti-money laundering systems and controls; the Company's procedures for detecting fraud; and the Company' systems and controls for the prevention of bribery.

## **Compliance**

- (h) to review the strategy, resources and work programme of the Company's Compliance function; to consider the major findings of the work undertaken by the Company's Compliance function and management's response thereto; and to ensure co-ordination between the work done by the internal and external auditors;
- (i) to review the Company's compliance with the UK Corporate Governance Code and in particular matters relating to internal controls and public statements with regard to the existence of internal controls and the effectiveness thereof, prior to their endorsement by the Board;
- (j) to receive and review reports prepared by the Compliance Officer relating to the Company's compliance with:
  - (i) its business integrity policy (forming part of its Statement of Business Principles (as amended)) and following approval thereof, recommend acceptance by the Development Impact Committee;
  - (ii) Financial Conduct Authority obligations and annual review;
  - (iii) non-compliance with fraud and anti-bribery procedures; and
  - (iv) other regulatory requirements.

## **Whistleblowing and Complaints**

- (k) to keep under review, and oversee implementation of and compliance with, the Company's Whistleblowing Policy relating to employees and contractors, including ensuring that arrangements exist for the proportionate and independent investigation of any concerns raised about

possible wrongdoing in financial reporting or other matters and for the taking of appropriate follow-up action;

- (l) to keep under review, and oversee implementation of and compliance with, the Company's Complaints/Whistleblowing Procedure relating to members of the public and other external stakeholders, including ensuring that arrangements exist for the proportionate and investigation of any concerns raised and for the taking of appropriate follow-up action.

#### **Internal audit**

- (m) to approve the appointment or termination of the head of internal audit;
- (n) to review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work, and annually approve the internal audit charter ensuring it is appropriate for the current needs of the organisation;
- (o) to 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;
- (p) to ensure that internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions and that the internal audit function evaluates the effectiveness of those functions as part of its internal audit plan; and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;
- (q) to ensure that the internal auditor has direct access to the Board Chairman and to the Committee Chair, providing independence from the executive and accountability to the Committee;
- (r) carry out an annual assessment of the effectiveness of internal audit function and as part of this assessment:
  - (i) meet with the head of internal audit without the presence of management to discuss the effectiveness of the function;
  - (ii) review and assess the annual internal audit work plan;
  - (iii) receive a report on the internal auditor's work;
  - (iv) determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and
  - (v) review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function;
- (s) monitor and assess the role and effectiveness of the internal audit function in the overall context of the Company's risk management system and the work of compliance, finance and the external auditor; and
- (t) consider whether an independent third party review of processes is appropriate.

## **External audit**

- (u) to consider and make recommendations to the Board, to be put to the shareholders for approval at the annual general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- (v) 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;
- (w) if the external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (x) oversee the relationship with the external auditor. In this context, the committee shall
  - (i) approve their remuneration, including both fees for audit and non-audit services, and ensure that the level of fee 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 scope of the audit;
- (y) 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 non-audit services;
- (z) 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;
- (aa) agree with the Board a policy on the employment of former employees of the Company's auditor, taking into account the Ethical Standard and legal requirements, and monitor the application of this policy;
- (bb) monitor the auditor's processes for maintaining independence, its compliance with relevant UK law, regulation, other professional requirements and the Ethical Standard including the guidance on the rotation of the audit partner and staff;
- (cc) monitor the level of fees paid by the Company to the external auditor compared to 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;
- (dd) assess annually the qualifications, expertise and resources and independence 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;

- (ee) seek to ensure the co-ordination of the external audit with the activities of the internal audit function;
- (ff) evaluate the risk to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the committee;
- (gg) develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the auditor, including the 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:
  - (i) threats to the independence and objectivity of the external auditor and any safeguards in place;
  - (ii) the nature of 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.
- (hh) 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, meet with the external auditor without management being present, to discuss the auditor's remit and any issues arising from the audit;
- (ii) discuss with the external auditor the factors that could affect the quality and review and approve the annual audit plan, ensuring that is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- (jj) review the findings of the audit with the external auditor. This shall include but not 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;
  - (vi) review of any representation letters requested by the external auditor before they are signed by Management;
  - (vii) review the management letter and management's response to the auditor's findings and recommendations; and
  - (viii) 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.

## **Operational**

- (kk) to inspect the records maintained by the Company of gifts and benefits received from third parties;
- (ll) to inspect registers and records required to be maintained by the Company pursuant to regulatory requirements and, in particular, those required by the Financial Conduct Authority;
- (mm) to receive, and if it so determines, rely upon reports received from the Development Impact Committee with respect to the Company's compliance with its Business Principles (as amended);
- (nn) to receive, when it so requests, reports from the Chief Executive Officer, the Chief Operating Officer, the Compliance Officer and/or the Chief Financial Officer with respect to any matters within the Committee's duties as contained herein;
- (oo) to ensure the provision of adequate training for its members (and those report to it) in relation to its duties hereunder;
- (pp) to approve treasury and banking policies.

## **General**

- (qq) to fulfil such other functions of an audit and compliance committee as are required by the UK Corporate Governance Code published by the Financial Reporting Council and associated guidance, so far as applicable to the Company;
- (rr) to consider such other topics as are either referred to the Committee by the Board or may be defined by the Committee and notified to the Board, which topics shall not be restricted to matters relating to internal financial controls but may include any matter constituting a material risk exposure for the Company;
- (ss) to 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, where appropriate, make recommendations to the Board on matters arising from the Committee's discussions

## **(12) REPORTING**

- (a) The Secretary shall circulate copies of the minutes of meetings of the Committee to all directors, following the preliminary approval of such minutes by the Chair; formal approval of such minutes shall be sought at the next meeting of the Committee.

- (b) The 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. This report shall include:
  - (i) the significant issues that it considered in relation to the financial statements (required under paragraph 11(a) (i) above)
  - (ii) its assessment of the effectiveness of the external audit process, the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans; and
  - (iii) any other issue on which the Board has requested the Committee's opinion.
- (c) The Chair may report on decisions of, or matters coming before, the Committee to any other person or body the Committee considers appropriate.

These terms of reference are to be reviewed at least at each renewal of the Company's Investment Policy.

These terms of reference were adopted by the Audit & Compliance Committee at its meeting on 1 February 2018 and ratified by the Board of CDC Group plc on 2 February 2018.