

AUDIT & RISK COMMITTEE REPORT



The Audit & Risk Committee continues to play a key role in developing Foresight Group's risk management and governance framework whilst ensuring the integrity of its financial reporting and internal controls through the scrutiny, monitoring and review of its systems.

Geoffrey Gavey

Chair of the Audit & Risk Committee

Dear Shareholders,

I am pleased to present the report of the Audit & Risk Committee for the year ended 31 March 2022.

Key areas of focus

Over the last 12 months the Committee has focused on monitoring the integrity of the Group's financial statements and evaluating the further development of its risk management function.

As noted in my report last year, the Group engaged an external regulatory and compliance adviser to conduct a thorough review of the Group's risk management processes. The Group hired a Head of Risk part way through this financial year to address the requirements highlighted in the report. The Committee was recently updated on the developments in this area and is satisfied with the progress.

Composition

The Committee was formed on 3 February 2021 as part of the preparation for the Company's Admission to the Main Market of the London Stock Exchange. Its members are me as Chairman, alongside fellow independent NEDs Alison Hutchison and Mike Liston.

The UK Corporate Governance Code recommends that all members of the Audit & Risk Committee be Independent Non-Executive Directors, that one such member has recent and relevant financial experience and that the Committee as a whole shall have competence relevant to the sector in which the Company operates.

Whilst no member of the Audit & Risk Committee has an accounting or audit qualification, the Board considers that the Company complies with the requirements of the UK Corporate Governance Code, as I have recent and relevant financial experience, being a member of the Audit & Risk Committee at other companies. The absence of a member of the Audit & Risk Committee with an accounting and/or audit qualification will be kept under periodic review by the Board.

Committee meetings

The Committee meets at least three times per year and at such other times as required. The Company's External Auditor or Chief Risk Officer ("CRO") may also request a meeting if they consider it necessary.

The Committee met on seven occasions during the financial year under review to discuss and approve both the Annual and Half-year Reports; plan for the audit for the year ended 31 March 2022; and discuss a number of other risk areas within the remit of the Committee.

Responsibilities

As part of the IPO in February 2021, Terms of Reference ("ToR") were defined and documented for the Committee, which reflect the current statutory requirements and best practice appropriate to a group of Foresight's size. The Committee is principally responsible for the following:

- (i) Considering and reporting any significant issues that arise in relation to the audit of the financial statements
- (ii) Reviewing the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems
- (iii) Considering the need for an internal audit function
- (iv) Reviewing the independence and effectiveness of the external audit process, including the provision of any non-audit services

A copy of the ToR can be found at <https://www.fsg-investors.com/corporate-governance#BoardCommittees>

(i) Significant financial reporting areas

The key areas of risk identified and considered by the Committee in relation to the business activities and financial statements of the Group for the year ended 31 March 2022 were as follows:

Area of focus	Comments and conclusions
<p>Revenue recognition (Management and Secretarial fees; Marketing fees; Directors' fees; Arrangement fees; and Performance fees)</p>	<p>Management fees Revenue is recognised in line with the investment management or advisory agreements in place with the appropriate funds. These are typically based on the Net Asset Value ("NAV") or committed capital of Limited Partnership funds managed or advised by the Group. Where NAV is used, it is typically the last audited or publicly available NAV approved by the independent boards of the relevant companies.</p> <p>Secretarial fees Relate to services provided to funds Foresight manages (such as company secretarial, accounts preparation, administration, etc.) and are generally driven by Funds Under Management ("FUM") and calculated as a percentage of NAV or as a fixed fee depending on the terms of the individual contract agreements.</p> <p>Marketing fees These are fees recognised as a percentage of initial funds raised from the tax-based retail products.</p> <p>Directors' fees Relate to services provided by Foresight staff where they are appointed as Directors on the boards of portfolio companies in which the Foresight funds invest. The fees are recognised in line with the contractual agreements between Foresight and the portfolio companies.</p> <p>Arrangement fees Earned by Foresight for its role in arranging certain deals (including capital deployments, fundraisings and refinancings), based on a percentage of the capital raised/deployed/refinanced.</p> <p>Performance fees Usually one-off in nature and earned from carried interest arrangements. Performance fees are recognised only at the point in time when the Group has certainty as to the receipt of such revenue, such that it is highly probable that a significant reversal in the amount of revenue recognised will not occur. A performance fee was recognised during the year following successful exits from the Foresight Regional Investment Fund LP ("FRIF"). The revenue was recognised once the cash had been received by the Group.</p> <p>Following discussions with management and review of the Group's controls and procedures as part of the meetings held throughout the year, the Committee is comfortable that revenue has been properly recognised in the financial statements in line with the Group's accounting policies.</p>
<p>IFRS 2 – Performance Share Plan</p>	<p>The Group implemented a new IFRS 2 Performance Share Plan ("PSP") scheme during the year with the first grant of options in September 2021. The implementation of this plan involved management judgement and complex accounting in particular around the grant and vesting start date, and the fair value of the options including appropriate retention rates.</p> <p>Management engaged with a third-party firm specialising in IFRS 2 valuations to assist with the valuation in this area. Discussions were held between the firm and management who challenged the assumptions used and assessed their appropriateness.</p> <p>Following discussions with management and review of the output from the third-party firm, the Committee has concluded that the financial statements have been accurately presented in accordance with IFRS 2.</p>

AUDIT & RISK COMMITTEE REPORT CONTINUED

Responsibilities continued

(i) Significant financial reporting areas continued

Area of focus	Comments and conclusions
Placement fees	<p>Following the further closes of the FEIP fund during the year, there was a large increase in placement fees, representing the costs of onboarding new investors into the fund. These placement fees were incremental to modifying the contract with the end customers and as a result were recognised as an asset and will be subsequently amortised on a systematic basis consistent with the pattern of transfer of the services to which the asset relates.</p> <p>Following discussions with management and review of the Group's accounting policies and procedures in this particular area, the Committee is comfortable that the accounting treatment and disclosures in the Annual Report are appropriate.</p>
Recognition and measurement of intangible assets	<p>The Group acquired the remaining 50% of the JV holding in FV Solar Lab SRL during the year. The acquisition was accounted for as a business combination under IFRS 3 and resulted in the recognition of an intangible asset of £1.7 million.</p> <p>Management engaged a third-party firm specialising in IFRS 3 valuations to assist with the accounting surrounding this transaction. The valuation of the intangible asset was determined by using a combination of a Multi period Excess Earnings Method ("MEEM") and Discounted Cash Flow ("DCF").</p> <p>Following discussions with management and review of the report from the third-party firm, the Committee is comfortable that the transaction has been accounted for correctly under IFRS 3 and there are no indications of impairment at 31 March 2022.</p>
Fair value of investments in underlying funds	<p>The Group has various "co-investments" in underlying Limited Partnership funds. The fair value of these investments is based on the NAV of the respective funds.</p> <p>There is some element of judgement involved in arriving at the valuation of the investments held by these funds, but the Committee is comfortable with the processes and controls in place across the Group, as evidenced by the ISAE 3402 report produced for the 12 month period to 31 March 2022. Comfort was also obtained by the fact that these funds were externally audited during the year.</p>

(ii) Risk management and internal controls

Each business and functional area across the Group identifies risks and assesses the risk and controls framework. Oversight of risks and risk management activity remains with the Group's Risk Committee, with some committee-relevant risks discussed at those committees as well, with escalation to the Executive Committee and Audit & Risk Committee as required.

The Board of Directors is accountable for the risk management activities of the Group and responsible for setting the tone for the Group's risk culture. The Board therefore has the ultimate responsibility for the effective management of risk, including determining the Group's risk appetite, identifying key strategic and emerging risks, and reviewing Foresight's risk management and internal control framework. For information on the Group's principal and material risks please refer to pages 102 to 105 of the Strategic Report.

In addition to the Group Risk Committee, the Audit & Risk Committee continues to rely on a number of different sources, including the production of the annual ISAE 3402 report which covers controls around the valuation of the Group's funds, as well as third parties providing additional support in specialist areas such as tax, risk, compliance and governance.

The Committee provided its confirmation to the Board that it has reviewed the effectiveness of the systems of internal control, including financial, operational and compliance controls, and risk management for the reporting period, as required under the provisions of the Code.

(iii) Internal audit

Taking account of the nature, scale and complexity of the Group's business, Foresight does not currently have a dedicated internal audit function. However, the Committee keeps this under constant review and is now expecting to implement an internal audit function in the near future as a result of the continued growth of the business. We also appointed a Head of Risk during the year to build on the development of our risk governance function.

Foresight prepares a controls report in accordance with International Standards on Assurance Engagements (ISAE 3402) which is also reviewed by BDO. This report describes the controls in place for processing investment transactions across the Group including the procedures in place to deal with conflicts of interest. The most recent report was produced and audited for the 12 month period to 31 March 2022. In addition, to ensure CASS rules are followed, an independent review is performed by the internal compliance function as part of its annual compliance monitoring plan.

(iv) External audit, including non-audit services

The Committee is responsible for ensuring that the External Auditor provides an effective audit of Foresight's financial statements, including overseeing the relationship, and evaluating the effectiveness of the service provided and its ongoing independence.

BDO are engaged as the External Auditor and have audited the principal trading business within the Group (Foresight Group LLP) since 2019 – Peter Smith has been BDO's senior statutory audit partner since then. The External Auditor is required to rotate its engagement partner at least every five years, and the audit partner will change in 2024 in line with these requirements.

In assessing the quality and effectiveness of the external audit, the Committee reviewed the audit team's demonstrated competence, experience, diligence, objectivity, professional scepticism, current knowledge and its relationship with the Executive Directors and senior management. In particular, the Committee met with the lead partner and senior members of the audit team to review the audit scope and audit findings, provide challenge and assess the depth of review provided by BDO over the significant judgements and estimates made by management. I also held private meetings with Peter Smith during the audit to understand BDO's processes, capability of their staff and observations about management, all of which I was satisfied with.

BDO confirmed its independence and objectivity from Foresight during the reporting period and both the Committee and the Board are satisfied that BDO has adequate policies and safeguards in place to ensure its objectivity and independence are maintained.

When assessing the independence of BDO, the Committee considered, amongst other things, the value of non-audit services provided by BDO, and the relationship with them as a whole. The provision of non-audit services is considered by the Committee in the policy they have adopted on the independence and objectivity of external auditors. This policy is aligned to the recommendations of the Financial Reporting Council's ("FRC's") Guidance on Audit Committees (2016) and the requirements of the FRC's Revised Ethical Standard (2019) (the "Ethical Standard"). An external audit firm will only be appointed to perform a non-audit service when doing so would be consistent with both the requirements and overarching principles of the Ethical Standard, and when its skills and experience make it the most suitable supplier. Details of the fees paid to BDO for audit and non-audit services are shown in note 6 to these financial statements. The non-audit services provided by BDO for the year ended 31 March 2022 related to an assurance report on the internal controls environment of the Group in accordance with ISAE 3402; the interim review of the Group's Half-year Report; services in respect of offers for new shares in the VCTs the Group manages; and the annual CASS audits.

The Committee is also responsible for recommending to the Board the appointment, reappointment and removal of the External Auditor. The Committee has recommended to the Board that, subject to Shareholder approval at the 2022 AGM, BDO be reappointed as External Auditor of the Group for the forthcoming year.

On behalf of the Audit & Risk Committee

Geoffrey Gavey

Chair of the Audit & Risk Committee

11 July 2022