

British Empire Trust plc
Audit Committee –Terms of Reference

Approved by the Board on 14 September 2017

The Audit Committee (the "Committee") is a committee of the Board of Directors of British Empire Trust plc (the "Board"), from which it derives its authority and to which it reports.

1. Membership, Appointment and Attendees

- 1.1 **Membership** – The Committee shall comprise three or more independent non-executive Directors appointed by the Board.
- 1.2 The Chairman of the Board may be a member of the Committee but may not act as Chairman of the Committee.
- 1.3 At least one member of the Committee shall have recent and relevant financial experience and the Committee as a whole shall have competence relevant to an investment trust.
- 1.4 **Appointments** to the Committee shall be for an initial period of three years which may be extended for further period(s) of three years subject to the Committee member still meeting the criteria for membership of the Committee.
- 1.5 The Chairman of the Committee shall be appointed by the Board and shall be paid an additional fee in recognition of the extra duties involved.
- 1.6 The Company/Corporate Secretary to the Board shall be Secretary of the Committee, and provide governance and administrative support to the Committee.
- 1.7 **Attendees**
 - (a) Any other Board members;
 - (b) The external independent auditors;
 - (c) A representative of the Company/Corporate Secretary;
 - (d) Any person or persons from the Investment Manager or Administrator invited by the Committee;
 - (e) Any other person(s) who the Committee may invite from time to time.

The attendees, listed above, are not members of the Committee and accordingly may be required to leave a meeting of the Committee (permanently or temporarily) if the Committee, or the Chairman of the Committee, considers it appropriate or desirable for them to do so.

2. Meetings and Quorum

2.1 **Meetings** will be held at least twice each year; and ordinarily will be held three times each year to:

- i) review the Company's draft Annual Report & Financial Statements,
- ii) review the Half Year Report of the Company and for audit planning purposes prior to the start of the annual audit cycle, and
- iii) carry out an annual review of risks and internal controls.

It may also meet at such other times as the Chairman of the Committee shall require. The Committee Chairman shall maintain appropriate dialogue outside of the Committee meetings with key individuals involved in the Company's governance

2.2 Unless otherwise agreed, notice of each meeting confirming the venue, date and time, together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the Committee not less than three working days prior to the date of the meeting.

2.3 **Quorum** shall be two members of the Committee including the Chairman of the Committee, or the Chairman's nominated delegate.

3. Minutes, Reporting and Disclosure

3.1 **Minutes** - The Committee shall cause minutes of all proceedings of the Committee to be taken.

3.2 The minutes of each meeting of the Committee shall be circulated to all Directors and attendees as appropriate, following review by the Committee Chairman, provided that no conflict or conflicts of interest would arise thereby.

3.3 **Reporting** - The Chairman of the Committee shall attend the Annual General Meeting of the Company and answer questions, through the Chairman of the Board, on the Committee's processes, duties and decisions.

3.4 The Chairman of the Committee will report to the Board on the Committee's decisions and recommendations.

3.4 **Disclosure** - A description of the Committee's duties and activities during the year shall be disclosed in the Annual Report. Disclosures should include:

- a summary of the role and work of the Committee;
- how the Committee's performance evaluation has been conducted;
- the significant issues that the Committee considered in relation to the financial statements and how these were addressed;
- an explanation of how the Committee has assessed the effectiveness of the external audit process and the approach taken to the appointment or re-

- appointment of the external auditor;
- the length of tenure of the current audit firm, how long the current audit partner has held the role, when a tender was last conducted and advance notice of any retendering plans;
- where a competitive tender has not been completed in the previous five years, the Committee to report in the next Annual Report, and in each subsequent year, on when a tender will next be completed and the reasons why this is in the best interests of the Company (if this date should subsequently change, the reasons for the change must be published immediately on the making of the decision);
- a statement of compliance with the provisions of the 2014 Competition and Markets Authority ("CMA") Order for Competitive Tender Processes;
- the Committee's policy for approval of non-audit services and an explanation of how auditor objectivity and independence is safeguarded;
- the audit fees for the statutory audit of the Company's financial statements paid to the external auditor for audit-related services and other non-audit services, including the ratio of audit to non-audit work; and
- the nature and extent of interaction, if any, with the FRC's Corporate Reporting Review Team.

4. Resources, Advice and Training

- 4.1 **Resources** - The Committee shall be provided with sufficient resources to undertake its duties.
- 4.2 **Advice** - The Committee shall have access to the services of the Company/Corporate Secretary on all Committee matters including:
- assisting the Chairman of the Committee in planning the Committee's work;
 - drawing up meeting agendas;
 - maintenance of minutes;
 - drafting of material about its activities for the annual report;
 - collection and distribution of information and provision of any necessary practical support.
- 4.3 The Committee shall have the power to engage independent counsel and other professional advisers at the expense of the Company.
- 4.4 **Induction & Training** - The Committee shall establish any process it considers necessary for the induction of new Committee members and, where required, on-going training of existing Committee members.

5. Scope of Authority

The Committee is authorised to:

- 5.1 seek any information it reasonably requires from a representative of any third party service provider in order to perform its duties;
- 5.2 request a representative of a third party service provider to attend any meeting of the Committee;
- 5.3 have timely and unrestricted access to relevant documents relating to the affairs of the Company.

6. Responsibilities of the Committee

6.1 The principal responsibilities of the Committee are:

- to monitor the Company's accounting policies, the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance;
- to review the financial and management reporting of the Company and ensure that it is fair, balanced and understandable and to advise the Board accordingly.
- to review the Company's internal financial controls and the Company's internal control and risk management systems;
- to make recommendations to the Board in relation to the appointment, reappointment or removal of the external auditor
- to approve the remuneration and the terms of engagement of the external auditor;
- to recommend to the Board the appointment of new auditors following a tender process (*the Audit Committee must offer the Board at least two choices for the audit engagement, with reasons, and provide a justified preference for one of them*);
- to discuss what information and assurance it requires in order to properly review, monitor and provide assurance or recommendations to the Board;
- to review and monitor the scope and effectiveness of the external audit and the Auditor's independence and objectivity;
- to manage the relationship with the external auditor including the development and implementation of policy on the supply of non-audit services;
- to review compliance with regulatory and financial reporting standards;
- to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the

steps to be taken.

The Committee members must act in accordance with the Directors' Duties set out in ss. 171 -177 of the Companies Act 2006.

The Committee should at least annually review its own effectiveness.

7. Financial Reporting

The Committee shall:

- review the significant financial reporting issues and judgements made in connection with the preparation of the Company's financial statements, Announcements of Results and related formal statements (e.g. summary financial statements and release of price sensitive information);
- consider significant accounting policies and whether the policies adopted are appropriate, any changes to them and any significant estimates and judgements;
- seek clarification from the Administrators of any changes in accounting policy or treatment affecting the Company's report and accounts;
- review the methods used to account for significant or unusual transactions where different approaches are possible;
- review the clarity and completeness of disclosures in the Company's financial statements;
- review the adequacy and scope of the external audit thereof and compliance with regulatory and financial reporting requirements, the clarity and completeness of disclosures in the financial statements and consider whether the disclosures made are set properly in context;
- satisfy itself that the Annual and Half Year Reports and any other significant published financial information are properly and carefully prepared, and give a fair representation of the Company's affairs;
- assess the basis on which the Company has been determined as a going concern and review the statements on going concern to be included in the Annual Report;
- for the purposes of the longer-term viability statement, assess the prospects of the Company over such period deemed appropriate (but longer than 12 months); determine whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of assessment; and

review the statements on longer-term viability to be included in the Annual Report;

- review related information presented with the financial statements, including the Strategic Report and corporate governance statements relating to the audit and to risk management;
- where Board approval is required for other statements containing financial information (for example, summary financial statements, significant financial returns to regulators and release of price sensitive information), whenever practicable (without being inconsistent with any requirement for prompt reporting under the Listing Rules or Disclosure Guidance and Transparency Rules) the Committee shall review such statements first;
- supervise the Company's policy in respect of tax planning; and
- supervise the Company's policy in respect of the financing of the Company.

8. Compliance with the AIFMD Directive

The Committee shall discuss and agree with the AIFM the additional reporting requirements, if any, to be included in the annual report and financial statements in order to ensure compliance with the AIFM Directive.

9. Internal Controls and Risk Management Systems

The Committee shall keep under review the Company's systems of internal financial controls (being the controls established to identify, assess, manage and monitor financial and cyber risks) and shall carry out a robust assessment of the principal risks at least annually. This review should include:

- reviewing the reports on the internal controls of the Company's service providers, the effectiveness of the control systems established by them and the conclusions of any testing carried out by an internal or external auditor;
- establishing a process for identifying, assessing, managing and monitoring the risks which may have a financial impact on the Company;
- reviewing reports on the conclusions of any testing carried out by the external auditor;
- reviewing and approving the statements included in the Annual Report in relation to internal control and the management of risk and viability.

10. Whistleblowing

The Committee shall review the arrangements by which staff of service providers to the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and satisfy itself that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

In addition, any one individual at a service provider, in providing services to the Company, shall have access to the Chairman of the Committee to raise any concerns that they may have in relation to the Company.

11. Audit

Internal

The Committee annually shall monitor and review the need for an internal audit function, make an appropriate recommendation to the Board and where applicable ensure that the reasons for the absence of such a function are explained in the relevant section of the Annual Report.

The Manager's Chief Compliance Officer and Head of Operations shall have the right of direct access to the Chairman of the Committee.

External

The Committee shall:

- be responsible for making recommendations to the Board on the appointment, reappointment and removal of the Company's Auditors and for approving their terms of engagement and remuneration;
- review and discuss with the Auditors their engagement letter issued at the start of each audit, ensuring that it has been updated to reflect changes in circumstances arising since the previous year, and the scope of the audit process, including planned levels of materiality, proposed to be undertaken by the Auditors;
- meet annually with the Auditors to review the annual results and to discuss any major issues that arose during the course of the audit;
- review any unadjusted errors in the financial statements and the explanations in relation thereto from the administrator and Auditors;
- meet annually with the Auditors, without the Investment Manager or

- administrator present, to discuss matters relating to its remit and any issues arising from the audit;
- satisfy itself that the level of fee payable in respect of the audit services provided is appropriate for an effective, high quality, audit to be conducted;
 - review and if necessary seek amendments to the Letter of Representation to be given by the Board to the Auditors;
 - at the end of the annual audit cycle, assess the effectiveness of the audit process including:
 - reviewing and approving the audit plan and whether the auditor has met the agreed audit plan;
 - understanding the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks;
 - obtain feedback about the conduct of the audit from key personnel at the Investment Manager and administrator;
 - consider the mindset and culture, skills, character and knowledge, quality control and judgement, including the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements identified and in responding to questions from the audit committee, and in their commentary where appropriate on the systems of internal control;
 - annually assess the qualification, expertise and resources, and independence and objectivity of the external auditors and the effectiveness of the audit process, including obtaining a report on the audit firm's own internal quality control procedures and consideration of the audit firm's annual transparency report;
 - ensuring that the Auditors are not conflicted by any work carried out for the Investment Manager and that any potential conflict has been satisfactorily resolved;
 - ensuring rotation of the audit partner after five years, with the flexibility of an additional two years if it is considered necessary to maintain audit quality and the extension is disclosed to shareholders;
 - develop and recommend to the Board the Company's policy on the provision of non-audit services by the Auditors, specifying the types of non-audit work from which the Auditors are excluded, taking into account relevant ethical guidance and legal requirements regarding the

- provision of non-audit services;
- consider and if appropriate approve all non-audit work to be carried out by the Auditors and, where non-audit services are provided, ensure that the relevant disclosures are made in the Annual Report regarding auditor objectivity, independence and the fees paid for non-audit work;
 - ensure that the Company's external auditors' contract is put out to competitive tender in line with the 2014 Competition and Markets Authority ("CMA") Order on Competitive Tender Processes and that any subsequent contract is put out to competitive tender at least every ten years, with the proviso that no single firm may serve as the Company's auditor for a period exceeding 20 years;
 - initiate the audit tender process and oversee the selection process, where it recommends considering the selection of possible new appointees as external auditors and ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process;
 - consider whether the risk of the withdrawal of the Auditor from the market need be included in risk evaluation and planning; and
 - if the Auditors were to resign, investigate the issues giving rise to such resignation and consider whether any action is required.

Background

These terms of reference have been produced to accord with the relevant Principles of The AIC Code of Corporate Governance published in February 2015 (Principles 5, 13 and 21), the 2014 Competition and Markets Authority ("CMA") Order on Competitive Tender Processes and, where deemed applicable, to follow the Guidance on Audit Committees published by the Financial Reporting Council in April 2016 (FRC Guidance).

The Financial Reporting Council has confirmed that AIC Member companies who report against the AIC Code of Corporate Governance and who follow the AIC's Corporate Governance Guide for Investment Companies will be meeting their obligations in relation its UK Corporate Governance Code published in September 2014 and Listing Rule 9.8.6.

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