

# **Hargreave Hale AIM VCT plc**

## **Audit Committee**

### **Terms of Reference**

#### **1. Committee Members**

The Committee shall consist of not less than three members, all of whom shall be independent non-executive directors of the Company.

The Chairman of the Committee must have recent and relevant financial experience and competence in accounting.

The Chairman of the Board may not be a member of the Committee.

#### **2. Membership**

The Committee shall be appointed by the Board.

All members of the Committee shall be independent non-executive directors of the Company, at least one of whom shall have recent and relevant financial experience and competence in accounting, the Committee as a whole shall have competence relevant to the sector in which the Company operates. Committee members should not be connected to the Investment Manager.

The Chairman of the Committee shall be appointed by the Board from amongst the independent non-executive directors. 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.

Only members of the Committee have the right to attend Committee meetings, however, other directors may attend Committee meetings at the invitation of the Committee. Other individuals may be invited to attend all or part of any meeting as and when appropriate.

The external auditors will be invited to attend a meeting of the Committee at least annually.

#### **3. Secretarial**

The Company Secretary of the Company shall be the secretary of the Committee.

The secretary will be responsible for circulating the agenda and meeting papers at least 7 days in advance of the meeting.

The secretary will be responsible for recording the minutes at each meeting.

#### **4. Quorum**

A quorum shall be two members.

#### **5. Frequency of meetings**

Meetings shall be held at least twice a year (to coincide with key dates in the Company's financial reporting cycle) and at other times as may be required.

#### **6. Notice of meetings**

Meetings of the Committee shall be convened by the secretary of the Committee at the request of any of its members or at the request of the external audit lead partner if they consider it necessary.

#### **7. Minutes of meetings**

The secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.

Draft minutes of Committee meetings shall be agreed with the Committee Chairman and then circulated to the members of the Committee, unless it would be inappropriate to do so in the opinion of the Chairman.

#### **8. Annual general meeting**

The Committee Chairman should attend the annual general meeting to answer shareholder questions.

#### **9. Duties**

The Committee should carry out the duties below as appropriate:

##### Financial Reporting

The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, interim management statements, preliminary announcements and any other formal statement relating to its financial performance, and review and report to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditors.

In particular, the Committee shall review and challenge where necessary:

- The application, consistency, quality and appropriateness of significant accounting policies and any changes to them;
- The methods used to account for significant or unusual transactions where different approaches are possible;
- Whether the Company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements;
- All material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and risk management.
- The clarity of disclosures;
- Compliance with accounting standards; and
- Compliance with stock exchange and other legal requirements.

The Committee shall review any other statements requiring Board approval which contain financial information.

Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

#### Narrative reporting

Where requested by the Board, the Committee should 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 necessary information for shareholders to assess the Company's performance, business model and strategy.

#### Internal controls and risk management systems

The Committee shall:

- keep under review the adequacy and effectiveness of the Company's internal financial control systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems. including where relevant those of service providers to the Company;
- review and approve the statements to be included in the annual report concerning internal controls and risk management; and
- consider annually whether there is a need for an internal audit function where no such function exists.

### Compliance, whistleblowing and fraud

The Committee shall:

- Review the arrangements for the Manager's staff to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and ensure these arrangements allow proportionate and independent investigation of such matters and appropriate follow up;
- Review the Company's procedures for detecting fraud; and
- Review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

### External audit

The Committee shall:

- Consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- 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 tender process;
- If an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- Oversee the relationship with the external auditor. In this context the Committee shall:
  - Approve their remuneration, including both fees for audit and non-audit services, and ensure that the level of fees is appropriate to enable an effective and high-quality audit to be conducted;
  - Approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit; and
  - Develop and implement a policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence and taking into account relevant regulations and ethical guidance in this regard; and 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.
- Assess the effectiveness, independence and objectivity of the external auditors annually taking into account relevant UK law, regulation, the Ethical Standard and other professional requirements;
- 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;
- Meet regularly with the external auditor (including once at the planning stage before audit and once after the audit at reporting stage), and, at least once a year, meet with the external auditor without management being present;

- Discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- Review the findings of the audit with the external auditor. This shall include but not be limited to:
  - A discussion of any major issues which arose during the audit;
  - The auditor's explanation of how the risks to audit quality were addressed;
  - Key accounting and audit adjustments;
  - The auditor's view of their interactions with senior management; and
  - Levels of errors identified during the audit.
- Review any representation letter(s) requested by the external auditor before they are signed by the Board;
- Review the representation letters from the Manager to the Board and the auditor's and management's responses to the auditor's findings and recommendations; and
- 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.

## 10. Reporting

The Secretary shall, once approved by the Chairman, circulate the minutes of the meetings to the Committee members and the Board in a timely fashion.

The Committee shall annually review its terms of reference and its own effectiveness and recommend any necessary changes to the Board.

The Committee Chairman shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and the Committee shall prepare a report to the Board on how it has discharged its responsibilities. The report shall include:

- The significant issues it considered in relation to the financial statements and how these were addressed;
- 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
- Any other issues on which the Board has requested the Committee's opinion.

The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

The Company shall compile a report on its activities to be included in the annual report and accounts. The report should include an explanation of how the Committee has addressed the effectiveness of the external audit process; 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 auditor; and all other information requirements set out in the AIC Code.

In compiling the reports, the Committee should exercise judgement in deciding which of the issues it considers 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 and the inputs to the Board's viability statement. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts but could cross-reference to that information.

## **11. Other matters**

The Committee shall:

- Have access to sufficient resources in order to carry out its duties, including access to the Company secretary for assistance as required;
- Be provided with timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- Give due consideration to relevant laws and regulations, the provisions of the AIC Code and the requirements of the Listing Rules, Prospectus Rules and Disclosure and Transparency Rules and any other rules, as appropriate;
- Be responsible for the coordination of the external auditors;
- Oversee any investigation of activities which are within its terms of reference; and
- Work and liaise as necessary with all other Board members, taking particular account of the impact of risk management and internal controls;

## **12. Authority**

The Committee is authorised by the Board to:

- Investigate any activity within its terms of reference;
- Seek any information it requires from the Company or any employee of the investment manager or any service provider;
- Request a representative of a third-party supplier to attend any meeting of the Committee;
- Obtain outside legal or independent advice, at the Company's expense if it considers this necessary; and
- 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.