



MANCHESTER AND LONDON INVESTMENT TRUST PLC

AUDIT COMMITTEE TERMS OF REFERENCE

1. PURPOSE

The Committee is appointed by the Board to review the Company's financial reporting, internal control and risk management policies and systems, internal and external audit functions, and other procedures, with the relevant principles of the UK Corporate Governance Code.

2. MEMBERSHIP, SECRETARY AND QUORUM

2.1 Members of the Committee shall be appointed by the Board in consultation with the Chairman of the Audit Committee. The Committee shall comprise at least two members, one of whom, being an independent non-executive Director, shall act as Chairman of the Committee. The Chairman of the Board shall not act as the Chairman of the Committee, but may be a member of the Committee.

2.2 All members of the Committee shall be non-executive Directors, at least one of whom shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies. The Committee as a whole should have competence relevant to an investment trust.

2.3 Only members of the Committee have the right to attend Committee meetings. However other individuals, such as external advisers (including, and in particular, the Company's external auditors), may be invited to attend Committee meetings as and when appropriate and necessary.

2.4 The Committee should have at least one meeting, or part thereof, with the external auditor without management being present, should the Committee deem that to be necessary.

2.5 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.

2.6 The Company Secretary or their nominee shall act as the Secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues. In the absence of the Secretary of the Committee, the members present at the meeting of the Committee shall elect another person as the secretary.

2.7 The quorum necessary for the transaction of business shall be two 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.

3. MEETINGS AND MINUTES

3.1 The Committee shall meet at least twice a year at appropriate times in the Company's reporting and audit cycle, in conjunction with the consideration of the annual and interim results of the Company, and otherwise as required;

- 3.2 The Secretary shall minute the proceedings and resolutions 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 promptly to all members of the Committee, unless it would be inappropriate to do so in the opinion of the Committee chairman;
- 3.3 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.
- 3.4 Unless otherwise agreed by the Committee, 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 no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members at the same time.
- 3.5 Notices, agendas and supporting papers can be sent in electronic form where the recipient has agreed to receive documents in such a way.
- 3.6 Outside of the formal meeting programme, the Committee chairman, and to a lesser extent the other Committee members, will maintain a dialogue with key individuals involved in the Company's governance, including the Board Chairman, the Investment Manager and the external audit lead partner.

4. DUTIES

4.1 Financial reporting

The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgments which they contain having regard to matters communicated to it by the auditor.

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

- 4.1.1 The appropriateness, consistency of, and any significant changes to, accounting policies both on a year-on-year basis and across the Company;
- 4.1.2 The methods used to account for significant or unusual transactions where different approaches are possible;
- 4.1.3 Whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- 4.1.4 The basis on which the Company has been determined as a going concern;
- 4.1.5 For the purposes of the viability statement:
- (i) Assessing the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, and how they are managed or mitigated;
 - (ii) Assessing the prospects of the Company over such a period deemed appropriate (but longer than 12 months); and
 - (iii) Determining, and reporting to shareholders in the annual report, 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.
- 4.1.6 The clarity of disclosures in the Company's financial reports and the context in which statements are made; and

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

The Committee shall review any other statements requiring Board approval which contain financial information first, where to carry out a review prior to Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation.

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.

4.2 **Investment Valuation and Revenue Recognition**

The Committee shall consider the issues of investment valuation and revenue recognition by regularly reviewing the investment valuations and reports of the Investment Manager.

4.3 **Compliance with the Alternative Investment Fund Managers' Directive ("AIFMD")**

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 AIFMD.

4.4 **Narrative Reporting**

Where requested by the Board, the Committee shall review the content of the annual report and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

4.5 **Internal Controls and Risk Management Systems**

The Committee shall, as appropriate given the nature of the Company:

- 4.5.1 Keep under review the Company's internal financial controls, being the systems established to identify, assess, manage and monitor financial risks, and other internal control and risk management systems and carry out a robust assessment of the principal risks at least annually;
- 4.5.2 Keep under review the effectiveness of the Company's financial reporting and internal control policies and procedures with respect to the Company's record keeping, asset management and operations for the identification, assessment and reporting of risks; and
- 4.5.3 Review the Company's statements to be included in the Annual Report concerning internal control systems and risk management, prior to endorsement by the Board, and the policies and process for identifying and assessing business risks and the management of those risks by the Company.

4.6 **Compliance, Whistleblowing and Fraud**

The Committee shall review compliance, whistleblowing and fraud detection procedures from service providers.

4.7 **Internal audit**

The Committee shall consider annually whether there is a need for an internal audit function and make a recommendation to the Board accordingly.

4.8 **External audit**

The Committee shall:

- 4.8.1 Consider and make recommendations to the Board, to be put to shareholders for approval at general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall be responsible for the selection procedure and overseeing the selection process for new auditors, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process, and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- 4.8.2 Oversee the relationship with the external auditor, including (but not limited to):
- (i) Making recommendations of their remuneration, whether fees for audit or non-audit services, and ensuring that the level of fees is appropriate to enable an effective, high-quality audit to be conducted;
 - (ii) Ensuring that the Company's external auditors' 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;
 - (iii) Approving their terms of engagement, including any engagement letter issued at the start of each audit, and reviewing the scope of the audit;
 - (iv) Assessing annually their independence and objectivity, taking into account relevant UK law, regulation, ethical standards and other professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
 - (v) Seeking information annually about the auditor's policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those regarding the rotation of audit partners and staff;
 - (vi) 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) which could adversely affect the auditor's independence and objectivity;
 - (vii) Assessing annually and reporting to the Board on their qualifications, expertise and resources and the effectiveness of the audit process which shall include obtaining a report from the external auditor on their own internal quality procedures;
 - (viii) Reviewing and monitoring the effectiveness of the audit process; and
 - (ix) Considering the need to include the risk of the withdrawal of their auditor from the market in their risk evaluation and planning.
- 4.8.3 Meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage;
- 4.8.4 Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, including planned levels of materiality and proposed resources;
- 4.8.5 Review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:
- (i) A discussion of any major issues which arose during the audit, including those that have been resolved and those that remain unresolved;

- (ii) An explanation from the auditor as to how they addressed any risks to audit quality previously identified;
- (iii) A review of the evidence received in relation to each area of significant judgement and of key accounting and audit judgements; and
- (iv) Levels of errors identified during the audit and the reasons for any that remain unadjusted;

The Committee shall also:

- 4.8.6 Review any representation letter(s) requested by the external auditor before they are signed by the Board;
- 4.8.7 Review any response from the Board as to the auditor's findings and recommendations;
- 4.8.8 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;
- 4.8.9 Develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the auditor, including approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved and the types of non-audit work from with the auditor would be excluded, 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 the 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;
- 4.8.10 At the end of the annual audit cycle, the Committee should assess the effectiveness of the audit process. In the course of doing so, the Committee should:
 - (i) Review whether the auditor has met the agreed audit plan and understand the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks;
 - (ii) Obtain feedback about the conduct of the audit from key people of the Investment Manager or Administrator involved; and
 - (iii) Review and monitor the content of the external auditor's management letter, in order to assess whether it is based on a good understanding of the Company's business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon.

5. REPORTING RESPONSIBILITIES

- 5.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and how it has discharged its responsibilities and make whatever recommendations to the Board it deems appropriate on any area within its remit;
- 5.2 The Committee shall compile a report to shareholders on its activities to be included in a separate section of the Company's annual report.
- 5.3 The Committee Chairman should attend the Annual General Meeting to answer shareholder questions on the report on the Committee's activities and matters within the scope of the Committee's responsibilities.

6. OTHER MATTERS

The Committee shall:

- 6.1 Have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance and independent professional advice at the expense of the Company as required;
- 6.2 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;
- 6.3 Give due consideration to the provisions of the UK Corporate Governance Code (and, if applicable, the AIC Code of Corporate Governance) and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure Guidance and Transparency Rules and any other Applicable Laws, as appropriate;
- 6.4 Supervise the Company's policy in respect of tax planning and the financing of the Company;
- 6.5 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 recommend any changes it considers necessary to the Board for approval.

7. APPROVAL

- 7.1 These terms of reference were approved by the Committee on 26 September 2017 and adopted by the Board on 26 September 2017.