

## ALLIANCE TRUST PLC

### AUDIT AND RISK COMMITTEE TERMS OF REFERENCE

Approved 28 February 2019

#### 1. Constitution

It is hereby resolved that the Audit Committee of the Board of Alliance Trust PLC formed by resolution of the directors on 19th June 1987 be continued the following terms as the Audit and Risk Committee.

#### 2. Membership

The Committee shall be appointed by the Board from amongst the independent non-executive directors of the Company and shall consist of not less than 3 members at least one of whom should have recent and relevant financial experience ideally with a qualification from a relevant professional body. Appointments to the Committee shall be for a period of up to three years, which may be extended for up to two further periods of up to three years, provided the director remains independent. The Chairman of the Board shall not be a member.

The Chairman of the Committee shall be appointed by the Board and will not have a second or casting vote in any matter to be determined by the Committee or recommended by the Committee to the Board. Members of the Committee shall be appointed by the Board, on the recommendation of the Senior Independent Director and in consultation with the chairman of the Committee.

#### 3. Attendance

Only members of the Committee shall have the right to attend meetings. The following may be invited or required to attend all or part of any meeting as and when appropriate and necessary.

- The Chairman of the Board or other non-executive directors
- Any employee or agent of any Group company
- Representatives from Finance, Compliance, Audit, Risk, Investment departments of Towers Watson Investment Management Limited (the 'Manager')
- The external auditor (the 'External Auditor') shall be invited to attend on a regular basis and will usually attend when audited financial statements are to be approved.
- The Committee will hold a private meeting attended only by the members of the Committee and representatives of the External Auditor at least annually.

#### 4. Secretary

The Company Secretary or his nominee shall act as Secretary of the Committee.

#### 5. Quorum

A quorum shall be two members. A duly convened meeting of the Committee at which a quorum is present will be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

## **6. Meetings**

The Committee shall meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required. The meeting shall receive minutes of the meetings of the audit committees of all subsidiary companies in the Group.

Outside of the formal meeting cycle the Chairman of the Committee will maintain a dialogue with the key individuals involved in the Company's governance including but not limited to the Chairman of the Board and the external audit lead partner.

## **7. Notice of meetings**

Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or at the request of external or internal auditor if they consider it necessary.

Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, will be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than five working days before the date of the meeting. Supporting papers will be sent to Committee members and to other attendees as appropriate, at the same time.

## **8. 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 will be circulated promptly to all members of the Committee. Once approved, and unless it would be inappropriate, minutes will be circulated to all other members of the Board of the Company

## **9. Annual General Meeting**

The Committee Chairman should attend the annual general meeting to answer shareholder questions on the Committee's activities.

## **10. Duties**

The Committee shall carry out the duties below for the Company.

## **11. Financial Reporting**

To monitor and review the integrity of the financial statements of the Company including its annual and half yearly reports, any other formal announcements relating to the Company's financial performance, reviewing significant financial reporting issues and judgments contained in them;

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

- a) the consistency of, and any changes to, accounting policies on a year on year basis and as presented to the Committee for approval by the Manager;
- b) the methods used to account for significant or unusual transactions where different approaches are possible followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor;
- c) the quality of disclosure in the financial reports and the context in which statements are made; and

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

## **12. Narrative Reporting**

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

## **13. Internal Controls**

- a) To review and report to the Board on the integrity and effectiveness of the accounting and financial controls of the Company; appraising and, where appropriate, challenging the actions and judgments of the Manager as they relate to both the financial reporting process and the internal control and risk management regime;
- b) Annually to review changes in the business which require consequent changes to the financial controls or the system of internal control;
- c) To review and approve the statements prepared by the Manager to be included in the annual report concerning internal controls and risk management.

## **14. External Audit Function**

- a) Make recommendations to the Board of the Company, to be put to the shareholders for approval at the Annual General Meeting, in respect of the appointment, reappointment and/or removal of the External Auditor. To oversee the process for selection of any External Auditor. If an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- b) The Committee shall ensure that at least once every 10 years the contract for external audit services is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the then current External Auditor with those of other audit firms; and in respect of any such tender oversee the selection process and ensure that all firms tendering for the role of external auditor have such access as is necessary to information and individuals during the tendering process;
- c) To oversee the relationship with the External Auditor including (but not limited to):
  - i. recommendations on their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
  - ii. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - iii. assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
  - iv. 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;

- v. agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
  - vi. monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
  - vii. assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
  - viii. seeking to ensure co-ordination with the activities of the internal audit function (if any); and
  - ix. considering the need to include the risk of withdrawal of the auditor from the market when evaluating the risks to the quality and effectiveness of the financial reporting process.
- d) Meet regularly with the External Auditor, including once to give the final annual audit report. The Committee will meet the External Auditor at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit;
- e) To review the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- f) To review the findings of the audit with the External Auditor. This shall include but not be limited to, the following;
- i. discussion of any major issues which arose during the audit;
  - ii. any accounting and audit judgments;
  - iii. levels of errors identified during the audit; and
  - iv. the effectiveness of the audit.

The Committee shall also

- a) review and approve any representation letter(s) requested by the External Auditor before they are signed;
- b) review the management letter and response to the External Auditor's findings and recommendations; and
- c) develop and implement a policy on the supply of non-audit services by the External Auditor, taking into account any relevant guidance on the matter.

## **15. Internal Audit Function**

The Committee shall consider annually the need for an Internal Audit function and where it has determined a need for such a function shall approve the appointment or termination of appointment of the head of internal audit.

## **16. Regulatory Compliance**

- a) To review the effectiveness of the controls and procedures established by the Manager for compliance with regulatory reporting requirements and with the requirements of external regulators as applicable to the Company;
- b) Where appropriate to monitor the relationship with the Financial Conduct Authority, the Prudential Regulation Authority and other relevant regulatory bodies, including review of the scope and results of work conducted by Reporting Accountants (or equivalents) approved by any relevant regulatory body.

## **17. Risk Review Function**

- a) To review the internal audit plan and the compliance plan of the Manager in respect of risk management issues;
- b) To ensure that the Manager has in place satisfactory procedures to identify the operational, credit, market and liquidity risks arising from the objectives of the Company and any other risks deemed by the Committee in its sole discretion to be pertinent to the identification and control of risk within the Company (the 'risks');
- c) To ensure that the Manager has in place a satisfactory framework, and that policies and procedures are in place for controlling, monitoring and managing these risks and for reporting any breaches in compliance with required standards and procedures in accordance with any applicable regulatory requirements and with regard to good practice;
- d) To review and consider matters arising from a number of sources to be satisfied that the risk management framework of the Manager is dynamic with respect to both internal and external factors. These sources include but are not limited to reports on:
  - i. Large loss events, new activities, companies and vehicles, joint ventures, products and post implementation reviews of key projects;
  - ii. Compliance, internal audit, external audit, information security, and from external events;
  - iii. A report, not more than half-yearly, addressing risk management systems as part of the system of internal control.
- e) To request reports and explanations from the Manager where the Committee believes that risks are not being identified or managed properly or are not in accordance with the risk management framework and agree appropriate action plans;
- f) To review controlling and monitoring procedures which the Manager has to ensure the Company retains its status as an Investment Trust under s1158 of the Corporation Taxes Act 2010 (HMRC requirements for continuous investment trust status);
- g) To report to the Board on any significant issues arising out of any of the above and make recommendations to the Board for any enhancements to processes and procedures.
- h) To advise the Board on the Group's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment drawing on financial stability assessments such as those published by the Bank of England, the Financial Conduct Authority and the Prudential Regulation Authority and other authoritative sources as relevant;
- i) To oversee and advise the Board on the Company's current risk exposures and future risk strategy;
- j) To review the Company's capability to identify and manage new risk types;
- k) To advise the Board on proposed strategic transactions, including material acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focusing in particular on risk aspects and implications for the appetite and tolerance of the Group and taking external advice where appropriate;

- l) To consider and advise the Board on the impact of significant changes to the Company's investment strategy, policy or benchmarks.
- m) To review and recommend to the Board for approval the Company and Group's Individual Capital Adequacy Assessment Process (the 'ICAAP');

## **18. Whistleblowing and fraud**

The Committee shall:

- a) Review the adequacy and security of the arrangements for employees and contractors within the Group to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that where these impact on the Company these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- b) Satisfy itself as to the adequacy of the procedures for detecting fraud within the Company and the Manager;
- c) Satisfy itself as to the adequacy of the systems and controls for the prevention of bribery and for the prevention of tax evasion and receive reports on non-compliance within the Company and the Manager;

## **19. Communications**

- a) To facilitate the work of the External Auditor by:
  - i. providing a forum for discussion of audit findings;
  - ii. helping to resolve any difference of view between the Manager and the auditors.
- b) To satisfy itself that arrangements are in place whereby staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting and other matters, and for investigation of matters so raised;
- c) To report to the Board on other matters within the Committee's remit as the Committee deem appropriate.

## **20. Powers**

- a) In order to discharge the duties specified:
  - i. the Committee is authorised to seek any information it requires directly or otherwise from any Group employee; and
  - ii. the Committee may commission such investigation and reports as it thinks fit;
- b) To obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference;
- c) To 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.

## **21. Reporting responsibilities**

The Committee Chairman shall report formally to the Board of the Company on its proceedings after each meeting on all matters within its duties and responsibilities.

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 Committee shall produce a report on its activities to be included in the Company's annual report.

## **22. Other matters**

The Committee shall:

- a) Have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- b) 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;
- c) Give due consideration to laws and regulations, the provisions of any relevant Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable Rules, as appropriate;
- d) Oversee any investigation of activities which are within its terms of reference; and
- e) 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 of the Company for approval.