

The Income & Growth VCT plc

AUDIT COMMITTEE Terms of Reference

Constitution

The Board has resolved to establish a committee of the Board to be known as the Audit Committee.

1 Membership

- 1.1 The Committee shall comprise the full Board.
- 1.2 The Chairman of the Committee shall be appointed by the Board. In the absence of the Committee chairman, the remaining members present shall elect one of themselves to chair the meeting.
- 1.3 The Company Chairman may be a member of the Committee provided that (s) he was considered independent on appointment as Chairman but shall not chair the Committee.
- 1.4 The Committee shall include at least two independent non-executive directors so that the majority of the Committee comprises independent non-executive directors.
- 1.5 At least one member of the Committee shall have recent and relevant accounting experience ideally with a professional qualification from one of the professional accountancy bodies. Members of the Committee as a whole shall have competence relevant to the VCT sector.

2 Investment Adviser

- 2.1 Representatives of the Investment Adviser will normally attend meetings of the Committee, but this shall not be as of right.

3 External auditors

- 3.1 The Committee will receive reports from the external auditors on the Annual and Half-Year accounts. A representative of the external auditors shall be invited to attend meetings at which the Annual accounts are considered and other meetings as appropriate.

4. Secretary

- 4.1 The Company Secretary shall be the secretary of the Committee.
- 4.2 The Company Secretary will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

5 **Quorum**

- 5.1 A quorum shall be two members. In the event that the quorum comprises one independent NED and one non-independent NED, then the independent NED shall act as Chairman of the meeting and shall have a casting vote.

6 **Frequency of Meetings**

- 6.1 Meetings shall normally be held quarterly. The external auditors may request a meeting if they consider that one is necessary.
- 6.2 Outside of the formal meetings programme, the committee chairman will maintain a dialogue as appropriate with key individuals involved in the Company's governance, including the board chairman, the investment adviser, the external audit lead partner and VCT tax adviser.

7 **Notice of meetings**

- 7.1 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 auditor if they consider it necessary.
- 7.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the Committee, and any other person required to attend no later than four working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time.

8 **Minutes of meetings**

- 8.1 The secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- 8.2 Draft minutes of committee meetings shall be circulated within two weeks of each meeting to all members of the Board.

9 **Annual General Meeting**

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

10 **Duties**

The duties of the Committee shall be:

10.1 **Financial reporting**

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

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

- the consistency of, and any changes to, accounting policies both on a year-on-year basis and across the Company;
- the methods used to account for significant or unusual transactions where different approaches are possible;
- whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
- all material information presented with the financial statements, such as the strategic review and corporate governance statements relating to the audit and risk management.

10.1.3 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.

10.2 **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 information necessary for shareholders to assess the Company's performance, business model and strategy.

10.3 **Internal controls and risk management systems**

The Committee shall:

10.3.1 keep under review and report on the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems; and

10.3.2 review and approve the statements to be included in the annual report concerning internal controls and risk management.

10.4 **Compliance, whistleblowing and fraud**

The Committee shall:

10.4.1 review the company's systems and controls for the prevention of bribery on an annual basis and receive reports on non-compliance; and

10.4.2 receive reports by exception from the investment adviser on money laundering and compliance, whistleblowing and fraud issues impacting on the Company.

10.5 **Internal audit**

The Committee shall:

10.5.1 assess the requirement for an internal audit on an annual basis; and

10.5.2 assess whether information received from the Company's principal service providers provides sufficient and objective assurance that an internal audit function specific to the Company is not required.

10.6 External Audit

The Committee shall:

- 10.6.1 consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- 10.6.2 ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;
- 10.6.3 ensure that any audit tender process is conducted in accordance with best practice and the audit firm rotation requirements set out in applicable EU and UK legislation;
- 10.6.4 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 10.6.5 oversee the relationship with the external auditor including (but not limited to):
 - 10.6.5.1 making recommendations to the Board on the remuneration of the external auditor, including both fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
 - 10.6.5.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - 10.6.5.3 assessing annually the external auditor's independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole;
 - 10.6.5.4 developing and implementing a policy on the supply of non-audit services by the external auditor, including assessing, at least annually, whether the services provided are permitted (rather than prohibited) under applicable EU and UK legislation;
 - 10.6.5.5 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;
 - 10.6.5.6 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;
 - 10.6.5.7 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;
 - 10.6.5.8 seeking to ensure co-ordination with the activities of the internal audit function if appropriate; and

- 10.6.5.9 evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of the auditor from the market in that evaluation.
- 10.6.5.10 meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall 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
- 10.6.5.11 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- 10.6.5.12 reviewing the findings of the audit with the external auditor. This shall include but not be limited to, the following:
 - a discussion of any major issues which arose during the audit;
 - any accounting and audit judgements;
 - levels of errors identified during the audit; and
 - the effectiveness of the audit process.
- 10.6.5.13 reviewing and approving any representation letter(s) requested by the external auditor; and
- 10.6.5.14 reviewing the management letter and the Investment Adviser's response to the auditor's findings and recommendations.

11 **Reporting responsibilities**

- 11.1 The Committee chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:
 - 11.1.1 the significant issues that it considered in relation to the financial statements (required under paragraph 9.1.1) and how these were addressed;
 - 11.1.2 its assessment of the effectiveness of the external audit process (required under paragraph 10.6.4.6) and its recommendation on the appointment or reappointment of the external auditor; and
 - 11.1.3 any other issues on which the Board has requested the Committee's opinion.
- 11.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 11.3 The Committee shall compile a report on its activities to be included in the Company's annual report. 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 and UK Codes of Corporate Governance ("the Codes") as appropriate.
- 11.4 In the compiling the reports referred to in 11.1 and 11.3, 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 comments the Board has made in relation to the Company's long-term viability. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

12 **Other matters**

The Committee shall:

- 12.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 12.2 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;
- 12.3 give due consideration to laws and regulations, the provisions of the Codes and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable Rules, as appropriate;
- 12.4 oversee any investigation of activities which are within its terms of reference;
- 12.5 work and liaise as necessary with all other board committees; and
- 12.6 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.

13 **Authority**

The Committee is authorised by the Board to:

- 13.1 seek any information it requires from any of the Company's service providers in order to perform its duties and all service providers and advisers are directed to co-operate with any request made by the Committee;
- 13.2 obtain at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so; and
- 13.3 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.

14 **Publication of these terms of reference**

Copies of these terms of reference shall be made available on request and published on any website that may be established by the Company.