

Aberdeen Diversified Income and Growth Trust plc

Audit Committee Terms of Reference

Adopted on 11 December 2018

Constitution

The Board resolves to establish a Committee of the Board to be known as the Audit Committee.

Membership

The Audit Committee shall be appointed by the Board from amongst the independent non-executive directors of the Company. It shall consist of not less than three members. The Board shall satisfy itself that at least one member of the Committee has competence in accounting and/or auditing and that the Committee as a whole has competence relevant to the sector in which the Company operates. The Chairman of the Board of the Company shall not be a member of the Committee but may attend by invitation of the Chairman of the Committee.

A quorum shall be two members.

The Chairman of the Audit Committee shall be appointed by the Board and should be different from the Chairman of the Company.

Meetings

The Audit Committee shall meet at least twice a year. The Audit Committee shall have the opportunity to meet the auditors, without management being present. Other Board members shall have the right of attendance. The auditors may request a meeting if they consider that one is necessary.

The Company Secretary shall be appointed as Secretary of the Committee.

Authority

The Audit Committee is authorised by the Board to investigate any activity within its terms of reference. The Audit Committee is authorised to obtain outside legal or other independent professional advice at the Company's expense, where necessary, on any matter within its terms of reference.

Background

The Company has no employees. With effect from 11 February 2017 Aberdeen Fund Managers Limited (the 'Manager') is the Company's Alternative Investment Fund Manager. Aberdeen Asset Managers Limited (the 'Investment Manager') acts as the Company's investment manager under a delegation agreement with the Manager. The Company Secretary is Aberdeen Asset Management PLC.

Duties

The duties of the Audit Committee are:

- a) Where requested by the Board, to provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.
- b) To make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment and reappointment of the external auditor and to determine the remuneration and terms of engagement of the external auditor.
- c) To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements.
- d) To develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.
- e) oversee the relationship with the external auditors including (but not limited to):
 - i) recommendations on their remuneration, including 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 professional and regulatory requirements and the relationship with the auditors 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) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements; and
 - vi) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditors on their own internal quality procedures;
 - vii) 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 their auditor from the market in that evaluation.
 - viii) 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;
 - ix) review the findings of the audit with the external auditors. This shall include but not be limited to, the following:
 - a. a discussion of any major issues which arose during the audit;
 - b. any accounting and audit judgements; and
 - c. levels of errors identified during the audit;
 - x) The committee shall also:
 - a. review any representation letter(s) requested by the external auditor before they are signed by the Board;
 - b. review the management letter and management's response to the auditor's findings and recommendations;
 - c. develop and recommend to the Board a policy on the supply of non audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter. The policy will specify the types of non-audit work from which the external auditors are excluded. If non-audit services are provided, disclosure should be made in the annual report regarding auditor objectivity and independence. A copy of the policy is attached as Appendix 1.
- f) To monitor the integrity of the annual and interim financial statements before submission to the Board, and any formal announcements relating to the Company's financial performance, focusing particularly on:
- i) any changes in accounting principles, policies and practices;
 - ii) The extent to which the accounting policies adopted are appropriate and any estimates and judgements made are appropriate, taking into account the views of the external auditor;
 - iii) the methods used to account for significant or unusual transactions where different approaches are possible;
 - iv) material adjustments resulting from audit;
 - v) the going concern assumption;
 - vi) the assumptions made in assessing the longer term viability of the Company and the appropriateness of the time horizon over which this assessment if made;
 - vii) compliance with accounting standards and all relevant statutory requirements;
 - viii) compliance with the UK Listing Authority.
- g) To discuss problems and reservations arising from the interim reviews and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary).
- h) To review reports from the auditors including the auditors' report to the Board.

- i) With respect to Internal Controls, Financial Reporting and Risk Management Systems the Committee shall:
- i) keep under robust review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems. The Audit Committee shall at least annually carry out a review of their effectiveness by means of a risk control self-assessment/risk heat map and report on that review in the Annual Report;
 - ii) review the procedures for identifying business risks and controlling their impact on the Company;
 - iii) review the Company's policies for preventing or detecting fraud;
 - iv) reasonably satisfy itself that such systems meet relevant legal and regulatory requirements and initiate further investigations as it sees fit as to the effectiveness of the systems of control;
 - v) review and approve the statements to be included in the Annual Report concerning internal controls and risk management.
 - vi) review semi-annual reports from the Manager on its activities as AIFM; a representative of the Manager will attend meetings on request;
 - vii) review semi-annual reports from the Depositary on its activities; a representative of the Depositary will attend meetings on request;
 - viii) review the Managers' report on its internal control systems and other service providers on their internal control systems; and
 - ix) review the reports from the Manager's internal audit department on the scope of the internal audit work carried out during the year and any issues arising.
 - j) To consider annually whether there is a need for an internal audit function specific to the Company.
 - k) To consider other topics, as defined by the Board.

Third Party Service Providers

The Committee shall:

- a) consider and make recommendations to the Board regarding the appointment of third party service providers; and
- b) ensure that third party service providers comply with the terms of their respective agreements with the Company and that the provisions of such agreements follow industry practice, remain competitive and are in the best interests of shareholders.

Reporting

The Committee shall:

- a) 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
The report shall include:
- b) the significant issues that it considered in relation to the financial statements (required under paragraph 8.1.9 above) and how these were addressed;
- c) its assessment of the effectiveness of the external audit process (required under paragraph 8.3.2.6 above and its recommendation on the appointment or reappointment of the external auditor; and
- d) any other issues on which the Board has requested the Committee's opinion.
- e) The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed; and
- f) 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 audit; and all other information requirements set out in the Code.
- g) In compiling the reports referred to above 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. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

Compliance, Whistleblowing and Fraud

The Committee shall:

- a) review the adequacy and security of the Manager's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action; and
- b) review the Company's procedures for detecting fraud;
- c) review the Manager's systems and controls for the prevention of bribery and receive reports on non-compliance;
- d) review regular reports from the Manager's Money Laundering Reporting Officer and the adequacy and effectiveness of the Manager's anti-money laundering systems and controls; and
- e) review reports from the Manager's Compliance Officer and keep under review the adequacy and effectiveness of the Manager's compliance function.

Minutes

The Secretary shall circulate the minutes of meetings of the Audit Committee to all members of the Board at the next Board Meeting following an Audit Committee Meeting.

The Chairman of the Audit Committee shall attend the AGM and answer questions through the Chairman of the Board, on the Audit Committee's activities and responsibilities.

APPENDIX 1

EU AUDIT REFORM

AUDIT COMMITTEE PRE-APPROVAL POLICY

11 December 2018

Statement of Principle

The Audit Committee (the "Committee") of the Board of Directors is required to pre-approve the audit and non-audit services performed by the independent statutory auditor or any of its affiliates (collectively, the "Audit Firm") in order to ensure that the provision of such services do not impair the independence of the Audit Firm.

The term of any pre-approval is 12 months from the date of preapproval, unless the Committee specifically provides for a different period. Periodically, the Committee may review and revise this Policy.

Pre-Approval

This Policy establishes two different approaches to pre-approving audit and non-audit services. Proposed services may either (1) require the specific pre-approval of the Committee ("Specific Pre-Approval") or (2) be pre-approved without consideration of specific case-by-case services ("General Pre-Approval"). Unless a type of service has received General Pre-Approval pursuant to this policy, it will require Specific Pre-Approval by the Committee.

Audit Services

The Committee has provided General Pre-approval of all annual Audit Service engagement terms and fees as listed in Appendix A. Permissible Audit Services not listed in Appendix A must seek Specific Pre-approval by the Committee.

Audit-Related Services

The Committee has provided General Pre-approval of all annual Audit-Related Service engagement terms and fees as listed in Appendix B. Permissible Audit-Related Services not listed in Appendix B must seek Specific Pre-approval by the Committee.

Tax Compliance and Advisory Services

The Audit Firm does not provide any such services to the Company therefore no approvals are required.

Other Services

The Committee has provided General Pre-approval of all annual Other Service engagement terms and fees as listed in Appendix C. Permissible Other Services not listed in Appendix C must seek Specific Pre-approval by the Committee.

Prohibited Non-Audit Services

A list of prohibited non-audit services is attached to this policy as Exhibit 1.

The Committee may approve the provision of the services referred to in point (a) (i), (a) (iv) to (a) (vii) and (f) of Exhibit 1, provided that the following requirements are complied with:

- a) they have no direct or have immaterial effect, separately or in the aggregate on the audited financial statements;
- b) the estimation of the effect on the audited financial statements is comprehensively documented and explained in the additional report to the Committee; and
- c) the principles of independence laid down in Directive 2006/43/EC are complied with by the Audit Firm.

Delegation

In the intervals between the scheduled meetings of the Committee, the Committee delegates authority under this Policy to the Chairman of the Committee (the "Chairman") to preapprove Audit and Non-Audit Services. The Chairman shall report any pre-approval decisions under this Policy to the Committee at its next scheduled meeting. The Committee can modify, at its discretion, the pre-approval originally granted by the Chairman.

This modification can be to the form or the nature of services preapproved, the level of fees approved, or both. The Committee expects pre-approval of Audit and Non-Audit services by the Chairman pursuant to this delegated authority to be the exception rather than the rule and may modify or withdraw this delegated authority at any time. The Committee does not delegate its responsibilities to pre-approve services performed by the Audit Firm to management.

Pre-Approved Services

Appendix A – Audit Services

1. Annual audit of financial statements (including quarterly or semi-annual reviews, if applicable) and other procedures required to be performed to be able to form an opinion on the PIEs financial statements.
2. Consultation by management as to accounting or disclosure treatment of transactions or events and/or the potential impact of final or proposed rules, standards, or interpretations by regulators or standard setting bodies.

Appendix B – Audit-Related Services

3. Agreed upon or expanded audit procedures related to accounting records required to respond to or comply with financial, accounting, or regulatory reporting matters
4. Consultations by management as to the accounting or disclosure treatment of transaction or events and/or the actual or potential impact of final or proposed rules, standards or interpretations by regulatory or standards setting bodies.
5. Regulatory compliance audits or control assessments, including reports issued in conjunction with mutual funds or other statutory requirements and Anti-Money Laundering required, whether paid in whole or in part by investees or affiliated entities.
6. Review of Bond covenants;

Appendix C – Other Services

7. Special services performed in connection with the issue of a prospectus, tender price or merger of funds.

Exhibit 1

Prohibited Non-Audit Services

Impermissible non-audit services, as defined under Article 5 of Regulation (EU) No 537/2014 of the European Parliament and of the Council, include the following:

- a) tax services relating to:
 - i. preparation of tax forms*;
 - ii. payroll tax;
 - iii. customs duties;
 - iv. identification of public subsidies and tax incentives unless support from the statutory auditor or the audit firm in respect of such services is required by law*;
 - v. support regarding tax inspections by tax authorities unless support from the statutory auditor or the audit firm in respect of such inspections is required by law*;
 - vi. calculation of direct and indirect tax and deferred tax*;
 - vii. provision of tax advice*;
- b) services that involve playing any part in the management or decision-making of the audited entity;
- c) bookkeeping and preparing accounting records and financial statements;
- d) payroll services;
- e) designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems;
- f) valuation services, including valuation performed in connection with actuarial services or litigation support services*;
- g) legal services, with respect to:
 - i. the provision of general counsel;
 - ii. negotiating on behalf of the audited entity; and
 - iii. acting in an advocacy role in the resolution of litigation;
- h) services related to the audited entity's internal audit function;
- i) services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity;
- j) promoting, dealing in, or underwriting shares in the audited entity;
- k) human resources services, with respect to:
 - i. management in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit, where such services involve:
 - searching for or seeking out candidates for such positions; or
 - undertaking reference checks of candidates for such positions;
 - ii. structuring the organisation design; and
 - iii. cost control.

* The Committee may approve the provision of the services referred to in point (a) (i), (a) (iv) to (a) (vii) and (f) of Exhibit 1, provided that the following requirements are complied with:

- a) they have no direct or have immaterial effect, separately or in the aggregate on the audited financial statements;
- b) the estimation of the effect on the audited financial statements is comprehensively documented and explained in the additional report to the Committee by the Audit Firm; and
- c) the principles of independence laid down in Directive 2006/43/EC are complied with the Audit Firm.