

# STANDARD LIFE INVESTMENTS PROPERTY INCOME TRUST LIMITED

## TERMS OF REFERENCE - AUDIT COMMITTEE

Approved and Adopted – November 2016

### 1. **Constitution**

The Audit Committee (the “Committee”) was constituted by resolution of the Board on 1 December 2003.

### 2. **Objectives**

- 2.1. To increase shareholder confidence by ensuring that published financial information is fair, balanced and understandable;
- 2.2. to assist the Board in meeting its financial reporting responsibilities;
- 2.2. To assist the board in ensuring the effectiveness of the Company’s accounting and financial controls and risk management systems;
- 2.3. To strengthen the independent position of the Company’s external auditors by providing a conduit of communication between them and the non-executive directors.

### 3. **Membership and Chairman**

- 3.1. The Committee shall be made up of at least three members, appointed by the Board, all of whom should be independent non-executive Directors.
- 3.2. All of these non-executive directors should be independent of the Manager and Administrator and also be free from any business or other relationship which could materially interfere with the exercise of their independent judgment. At least one member should have relevant recent financial experience. The Committee as a whole should have competence relevant to the sector in which the Company operates.
- 3.3. The Chairman of the Committee shall be appointed by the Board and shall be a non-executive director.
- 3.4. The membership of the Committee is to be set out in the annual report and financial statements of the Company.
- 3.5. The Company Secretary or its nominee shall act as the secretary of the Committee.

### 4. **Meetings**

- 4.1. The quorum for meetings of the Committee will be two and the Committee will meet at least three times each year.
- 4.2. 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.

- 4.3. Only members of the Committee have the right to attend Committee meetings. The Committee may invite others to attend its meetings as it deems appropriate.
- 4.4. Scheduled Committee meetings shall also be attended by the external auditor whenever appropriate.

## **5. Responsibilities**

The duties of the Committee are as follows:

### **Financial Reporting**

1. The Committee shall monitor the integrity of the annual and half yearly financial statements of the company and any interim and preliminary announcements and any other formal announcements relating to its financial performance, Including
  - 1.1 any changes in accounting policies and practices;
  - 1.2 major judgmental areas;
  - 1.3 significant adjustments resulting from the audit;
  - 1.4 the going concern and viability assumptions;
  - 1.5 compliance with accounting standards; compliance with regulatory and legal requirements (including the requirements of the UK Listing Authority and the London Stock Exchange);
  - 1.6 Compliance with Guernsey Company Law.
2. The audit committee will provide advice on whether the annual report and accounts taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy. The audit committee should report to the Board on how it has discharged its responsibilities and a separate section of the Annual Report should describe the work of the audit committee in discharging its responsibilities. The report should include inter-alia the significant issues that the committee considered in relation to the financial statements and how these issues were addressed.
3. The Committee shall review with the Investment Manager and auditor, challenging where necessary;
  - 3.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company;
  - 3.2 the methods used to account for significant or unusual transactions where different approaches are possible;
  - 3.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor;
  - 3.4 all material information presented with the financial statements such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and to risk management) including its consistency with the financial statements.
  - 3.5 the basis for the going concern and viability assumptions; and

- 3.6 material misstatements detected by the auditors that individually or in aggregate have not been corrected and management's explanations as to why they have not been adjusted
- 3.7 the basis upon which the net asset value of an ordinary share is published quarterly;
- 3.8 and any related party transactions to ensure that the financial statements contain the necessary disclosures to comply with reporting standards.

#### **External Auditors**

- 4. The Committee shall 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. The Annual Report should include an explanation of how the Audit Committee has assessed the effectiveness of the external audit process and the approach taken to the appointment, or re-appointment of the external auditor and information on the length of tenure of the current audit firm and when a tender was last conducted.
  - 4.1 The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required and also;
  - 4.2 to monitor and approve the fees paid to the auditors both in respect of audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
  - 4.3 approval of their terms of engagement including any engagement letter and the scope of the audit;
  - 4.4 assessing their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole including the provision of any non-audit services;
  - 4.5 as appropriate agreeing with the board a policy on the employment of former employees of the Company's auditor by the Investment Manager, then monitoring the implementation of this policy;
  - 4.6 monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners and other personnel;
  - 4.7 assessing annually their qualifications, expertise and resources and the effectiveness of the audit process;
  - 4.8 seeking to ensure co-ordination with the activities of the Investment Manager's internal audit function.
  - 4.9 meet regularly with the external auditor, including once at the planning stage and once after the audit at the reporting stage. The Committee should also meet the auditor without the Manager and Administrator being present to discuss any issues arising from the audit;
  - 4.10 to review the findings of the auditors and to discuss with the auditors any problems or reservations arising from the audit (whether interim (if applicable) or final) and any matters which the auditors wish to discuss;
  - 4.11 to review the effectiveness of the audit including cost and review any representation letter requested by the external auditor before they are signed by the board;

- 4.12 review any findings on material weaknesses in accounting and internal control systems and the Manager and administrator responses to the auditor's findings and recommendations.
- 4.13 As per section 4.4 above, if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded should be included in the Annual Report. The Audit Committee must approve all any non-audit services being provided to the Company.

#### **Internal controls and risk management systems**

- 5. The Committee shall monitor the effectiveness of the systems of accounting and internal control and shall review the Company's statement on internal control systems before endorsement by the Board and also;
  - 5.1 review the Investment Manager's internal controls report and the company's internal control review prepared by the Investment Manager and Administrator to monitor the adequacy, appropriateness and effectiveness of the company's internal controls and risk management systems;
  - 5.2 review and approve the statements to be included in the annual report concerning internal controls and risk management.
  - 5.3 confirm, for the annual report that a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity has been carried out. Risk should be described and an explanation provided as to how they have been managed or mitigated;
  - 5.4 review and approve the statements to be included in the annual report relating to going concern and viability. The review shall take account of the Company's current position and principal risks and the statements shall explain how the prospects of the Company have been assessed, over what period this has been done, for each of going concern and viability, and why the period is considered appropriate. The Committee shall confirm to the Board that there are reasonable expectations that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of assessment, drawing attention to any qualifications or assumptions as necessary.
  - 5.5 review the six-monthly reports from the Investment Manager, in its capacity as AIFM, on compliance with AIFMD.

#### **Whistle Blowing**

- 6. The Committee shall review the Company's arrangements for the Investment Manager's and the Administrator's employees raising concerns in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure these arrangements allow proportionate and independent investigation and appropriate action and review the Company's procedures for preventing and detecting fraud.

## **Other Matters**

7. The Committee shall have the authority to investigate any matter within its term of reference (and shall have the resources which it needs to do so) and to seek any information it requires from any associate of the Company. The Committee is authorised to take such independent professional advice (including legal advice) and to secure the attendance of outsiders with relevant expertise or experience as it considers necessary.

At least once a year review its own performance, 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.

The Chairman of the Committee shall make a brief report of the findings and recommendations of the Committee to the Board after each Committee meeting. The minutes of the Committee meetings shall be circulated to the Board. The Chairman shall submit an annual report to the Board summarising the Committee's activities during the year and related significant results and findings.

The Committee shall have no executive powers with regard to its findings and recommendations.

The Chairman of the Committee should be available to answer questions about its work at Annual General Meetings.