

**TERMS OF REFERENCE  
OF THE AUDIT COMMITTEE (THE "COMMITTEE")  
OF THE BOARD OF DIRECTORS (THE "BOARD")  
OF SHIRES INCOME PLC (THE "COMPANY")**

**1. Membership**

- 1.1 The Committee shall be made up of at least 2 members. Members of the Committee shall be appointed by the Board.
- 1.2 All members of the Committee shall be independent non-executive Directors of the Company, 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 shall have competence relevant to the investment trust sector. The Chairman of the Board can be a member of, but not chair, the Committee, provided he or she was considered independent on appointment.\*
- 1.3 Only members of the Committee have the right to attend Committee meetings. However, other individuals, such as employees of the Manager, may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 1.4 The auditor will be invited to attend meetings of the Committee on a regular basis.
- 1.5 The Board shall appoint the Chairman of the Committee who shall be an independent non-executive Director. In the absence of the Chairman of the Committee and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

**2. Secretary**

- 2.1 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.

**3. Quorum**

- 3.1 The quorum necessary for the transaction of business shall be 2 members preferably at least one of these members should have the relevant experience. 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. Frequency of Meetings**

- 4.1 The Committee shall meet at least twice in each year at appropriate times in the reporting and audit cycle and otherwise as required.

**5. Notice of Meetings**

- 5.1 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 the auditor if they consider it necessary.
- 5.2 Unless otherwise agreed, 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, any other person required to attend and all other non-executive Directors, no later than 4 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.

## **6. Minutes of Meetings**

- 6.1 The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2 Draft Minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once agreed, Minutes should be circulated to all members of the Board.

## **7. Annual General Meeting**

- 7.1 The Chairman of the Committee shall attend the Annual General Meeting to answer shareholder questions on the Committee's activities.

## **8. Duties**

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

### **8.1 Financial reporting.**

8.1.1 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 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.

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

8.1.2.1 the consistency of, and any changes to, accounting policies on a year on year basis across the Company.

8.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible.

8.1.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the auditor.

8.1.2.4 the basis of the going concern assumption.

8.1.2.5 the Company's annual viability statement.

8.1.2.6 the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made.

8.1.2.7 all material information presented with the financial statements, such as the strategic report and the corporate governance statement (relating to the audit and to risk management).

8.1.3 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.

### **8.2 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.

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

The Committee shall:

8.3.1 keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems.

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

8.4 Compliance, Whistleblowing and fraud.

The Committee shall:

8.4.1 review the adequacy and security of the Company's arrangements in place for the Manager's employees 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.

8.4.2 review the Manager's procedures for detecting fraud.

8.4.3 review the Manager's systems and controls for the prevention of bribery and receive reports on non-compliance.

8.5 Internal audit.

The Committee shall:

8.5.1 monitor and review the effectiveness of the Manager's internal audit function in the context of the Company's overall risk management system.

8.5.2 review and assess the Manager's annual internal audit plan.

8.5.3 review biannual reports on the Company from the Manager's internal audit and compliance function.

8.5.4 review and monitor the Manager's responsiveness to the findings and recommendations of the internal audit function.

8.5.5 meet the Manager's head of internal audit at least once a year. The head of the Manager's internal audit function shall be given the right of direct access to the Chairman of the Board and Chairman of the Committee.

8.5.6 consider annually whether there is a need for the Company to have its own internal audit function.

8.6 External Audit.

The Committee shall:

8.6.1 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 auditor. 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.

8.6.2 oversee the relationship with the auditor including (but not limited to)

8.6.2.1 approval of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an effective and high quality audit to be conducted.

8.6.2.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit.

- 8.6.2.3 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.
- 8.6.2.4 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 or objectivity;
- 8.6.2.5 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.
- 8.6.2.6 assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process which shall include a report from the auditor on their own internal quality procedures.
- 8.6.2.7 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.

8.6.3 meet regularly with the auditor at the audit planning (if required) and reporting stage. The Committee shall meet the auditor at least once a year, without the Manager being present, to discuss their remit and any issues arising from the audit.

8.6.4 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;

8.6.5 review the findings of the audit with the auditor. This shall include but not be limited to, the following:

- 8.6.5.1 a discussion of any major issues which arose during the audit.
- 8.6.5.2 any accounting and audit judgements.
- 8.6.5.3 levels of errors identified during the audit.
- 8.6.5.4 the effectiveness of the audit process.

The Committee shall also:

8.6.6 review any representation letter(s) requested by the external auditor before it (they) are signed by the Board.

8.6.7 review the auditor's audit highlights memorandum letter and their findings and recommendations.

8.6.8 develop and implement a policy on the supply of non-audit services by the auditor, to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.

## **9. Reporting Responsibilities**

9.1 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:

9.1.1 the significant issues that it considered in relation to the financial statements (required under paragraph 8.1.1) and how these were addressed;

9.1.2 its assessment of the effectiveness of the external audit process (required under paragraph 8.6.2.6) and its recommendation on the appointment or reappointment of the auditor; and

- 9.1.3 any other issues on which the Board has requested the Committee's opinion.
- 9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3 The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report. The report should include:
- 9.3.1 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;
  - 9.3.2 an explanation of how the Committee has addressed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans;
  - 9.3.3 if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence are safeguarded;
  - 9.3.4 where there is no internal audit function, an explanation for the absence, how internal assurance is achieved, and how this affects the work of the external auditor;
  - 9.3.5 all other information requirements set out in the Code.
- 9.4 In compiling the reports referred to in 9.1 and 9.3, 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. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

## **10. Other Matters**

The Committee shall:

- 10.1 have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required.
- 10.2 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.
- 10.3 give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable Rules, as appropriate.
- 10.4 oversee any investigation of activities which are within its terms of reference.
- 10.5 work and liaise as necessary with all Board committees.
- 10.6 arrange for periodic reviews of its own performance, 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.

## **11. Authority**

The Committee is authorised:

- 11.1 to seek any information it requires from any employee of the Manager in order to perform its duties.

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| <p>11.2 to obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so.</p> <p>11.3 to call any representative of the Manager to be questioned at a meeting of the Committee as and when required.</p> <p>11.4 to publish in the Company's annual report, details of any issues that cannot be resolved between the Committee and the Board.</p> |
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\* - Paragraph 29 of the AIC Code of Corporate Governance (published February 2019) states that the chair of the board should not chair the audit committee but can be a member if they were independent on appointment and that, if the chair of the board is a member of the audit committee, the board should explain in the annual report why it believes this is appropriate. Such an explanation is provided in the Company's Annual Report.

Last reviewed: May 2019