

## ABERDEEN JAPAN INVESTMENT TRUST PLC

### TERMS OF REFERENCE OF THE AUDIT COMMITTEE

#### **1. Membership and Attendance**

- 1.1 The Audit Committee shall be appointed by the Board and shall comprise a Chairman and at least 2 other members.
- 1.2 All members of the Audit Committee shall be independent non-executive directors. The Chairman of the Board can be a member of the Audit Committee provided he/she was considered independent on appointment. At least one member of the Audit Committee should have recent and appropriate professional qualifications or relevant financial expertise.
- 1.3 Care should be taken to minimise the risk of any conflict of interest that might be seen to give rise to an unacceptable influence.
- 1.4 The Board shall appoint the Audit Committee Chairman who shall be an independent nonexecutive director. In the absence of the Audit Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of their number present to chair the meeting.
- 1.5 The Audit Committee shall ask the Chairman of the Board and any relevant senior management to attend meetings, either regularly or by invitation, but the invitees shall have no right of attendance.
- 1.6 The Audit Committee shall invite a representative of the external auditors and the head of internal audit to attend all meetings. The Audit Committee should have at least one meeting, or part thereof, with the external auditor without management being present should the Committee deem that to be necessary.

#### **2. Company Secretary**

- 2.1 The Company Secretary or their nominee shall act as the Secretary of the Audit Committee.

#### **3. Quorum**

- 3.1 The quorum necessary for the transaction of business shall be 2. A duly convened meeting of the Audit 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 Audit Committee.

#### **4. Frequency of Meetings**

- 4.1 The Audit Committee shall meet three times a year and at such other times as the Chairman of the Audit Committee shall require.
- 4.2 Meetings shall be arranged to tie in with the publication of the Company's financial statements.
- 4.3 Meetings can be requested by the external or internal auditors if they consider that to be necessary.

#### **5. Notice of Meetings**

- 5.1 Meetings of the Audit Committee shall be convened by the Secretary of the Audit Committee at the request of any member thereof.
- 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 Audit Committee, any other person required to attend and all other members of the Board.

#### **6. Minutes of Meetings**

- 6.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Audit Committee, including recording the names of those present and in attendance.
- 6.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.3 Minutes of Audit Committee meetings shall be circulated to all members of the Audit Committee and to the Chairman and all other members of the Board.

#### **7. Annual General Meeting**

- 7.1 The Chairman of the Audit Committee shall attend the Annual General Meeting and be prepared to respond to any shareholder questions of the Audit Committee's activities.

## **8. Duties**

### **8.1 Internal Control and Risk Assessment**

- 8.1.1 The Audit Committee shall keep under review the effectiveness of the Company's financial reporting and internal control policies and procedures with respect to the Company's record keeping, asset management and operation for the identification, assessment and reporting of risks.
- 8.1.2 The Audit Committee shall monitor adherence to best practice in corporate governance.
- 8.1.3 The Audit Committee shall determine the effectiveness of and reliance on the Manager's risk management systems and internal audit function
- 8.1.4 The Audit Committee shall review the arrangements which the Manager has in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters
- 8.1.5 The Audit Committee shall assess the adequacy of resources within the Manager's risk management function and the adequacy of its reporting to the Audit Committee
- 8.1.6 The Manager's head of internal audit should meet with the Audit Committee at least once a year
- 8.1.7 The Audit Committee Chairman has access to meet with Aberdeen Group's AC Chairman.
- 8.1.8 To carry out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity and to describe how these principal risks are being managed or mitigated (viability statement).

### **8.2 Internal Audit**

- 8.2.1 The Audit Committee shall review promptly all reports on the Company from the internal auditors.
- 8.2.2 The Head of Compliance and Operational Risk shall have the right of direct access to the Chairman of the Audit Committee.

### **8.3 External Audit**

- 8.3.1 The Audit Committee shall consider and make recommendations to the Board as regards the appointment, re-appointment, remuneration of and the provision of non-audit services by the Company's external auditors, and shall seek to ensure that key partners within the appointed firm are rotated from time to time.
- 8.3.2 The Audit Committee shall review and approve with the external auditors the terms of any engagement letter.
- 8.3.3 The Audit Committee shall mediate in relation to any disagreements between the Managers and the external auditors.
- 8.3.4 The Audit Committee shall meet with the external auditors at least twice a year; once at the planning stage, where the scope of the audit shall be considered, including any requests to the external auditor to pay special attention to particular areas of activity; and once post audit at the reporting stage, to review any matters arising in the course of the audit with respect to accounting or internal control systems, and to ensure that any auditor's management letters and management's responses are reviewed.
- 8.3.5 The Audit Committee shall keep under review the relationship with external auditors including (but not limited to):
- 8.3.5.1 the independence, objectivity and effectiveness of the external auditors;
  - 8.3.5.2 the consideration of audit fees to be paid as well as any other fees payable to auditors in respect of non-audit activities; and
  - 8.3.5.3 discussions with the external auditors concerning such issues as compliance with accounting standards and any proposals which the external auditors have made, e.g. the Company's internal auditing standards.

## **8.4 Financial Statements**

8.4.1 The Audit Committee shall keep under review the consistency of accounting policies both on a year-to-year basis and across the Company.

8.4.2 The Audit Committee shall review and challenge where necessary the Company's financial statements taking into account:

- decisions requiring a major element of judgement;
- the extent to which the financial statements are affected by any unusual transactions;
- the clarity of disclosures;
- significant adjustments resulting from the audit;
- the going concern assumption;
- compliance with accounting standards;
- compliance with stock exchange and other legal requirements; and
- the Company's statement on internal control systems, prior to endorsement by the Board, and the policies and process for identifying and assessing business risks and the management of those risks by the Company.

8.4.3 The Audit Committee shall ensure that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

8.4.4 The Audit Committee shall identify significant issues that it considered in relation to the financial statements and how these issues were addressed.

8.4.5 The Committee shall assess the integrity of the Company's viability statement in the annual report which determines whether the Board has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due. The Committee should specify the recommended period to be covered (should be longer than 12 months) and why they consider that period to be appropriate.

## **8.5 Reporting Responsibilities**

8.5.1 The Audit Committee or its Chairman shall meet formally with the Board at least once a year to discuss such matters as the Annual Report and the relationship with the external auditors.

8.5.2 In the light of its other duties, the Audit Committee shall make whatever recommendations to the Board it deems appropriate and shall compile a report to shareholders to be included in the Company's Annual Report and Accounts.

## **8.6 Other Matters**

8.6.1 The Audit Committee shall give due consideration to the requirements of the UK Listing Authority's Listing Rules.

8.6.2 The Audit Committee shall be responsible for supervising the co-ordination of the activities of the internal and external auditors.

8.6.3 The Audit Committee shall review the Company's procedures for the signing of cheques and the transfer of inter-bank funds.

8.6.4 The Audit Committee shall review the policy on approved deposit takers and deposit limits.

8.6.5 The Audit Committee shall review the Company's Agreements, in particular the Investment Management Agreement, Company Secretarial and Administration Agreement, and Custody Agreement.

8.6.6 The Audit Committee shall ensure that financial information used within the Company or published is reliable.

8.6.7 The Audit Committee shall oversee any investigation of activities, which are within its terms of reference and act as a court of the last resort.

8.6.8 The Audit Committee shall, on a regular basis, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness.

8.6.9 The Audit Committee shall review compliance with the Listing Principles.

**9. Authority**

9.1 The Audit Committee is authorised:

- to seek any information it requires from the Managers in order to perform its duties;
- to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference; and
- to request that a representative of the Managers be available to answer questions at meetings of the Audit Committee.
- to provide an induction programme for new Audit Committee members. Ongoing training will be available for existing members of the Committee.

As adopted: 23 May 2016