

# Capital Gearing Trust P.l.c.

## TERMS OF REFERENCE OF THE AUDIT AND RISK COMMITTEE

Last revised and adopted by the Board on 10 November 2022

### Constitution

1. The Board resolves to establish a Committee of the Board to be known as the Audit and Risk Committee (the Committee). The Committee reports to and is accountable to the Board.

### Membership

2. The Committee shall be appointed by the Board and shall comprise at least three non-executive Directors. The members of the Committee will be independent of the Investment Manager and will have at least one member whom the Board considers to have recent and relevant financial experience. The Committee as a whole shall have competence relevant to the sector in which the Company operates. The Chairman of the Board can be a member of, but will not chair, the Committee.
3. The Chairman of the Committee shall be appointed by the Board. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one their number to chair the meeting.
4. Appointments to the Committee shall be for a period of up to three years, which may be renewed or extended, providing the Director remains independent of the Investment Manager.
5. The quorum necessary for the transaction of business shall be two members.

### Frequency of Meetings

6. Meetings shall be held at least two times a year at appropriate times in the reporting and audit cycle, and otherwise as required. The external auditors may request a meeting if they consider that one is necessary.

### Attendance at Meetings

7. A representative of the external auditors shall attend at least one meeting of the Committee per year, such meeting will include the review of the annual financial statements. Prior to such meeting the Chairman of the Committee or another nominated member shall meet with the external auditors to discuss audit planning and the auditors remit for the year.
8. Only members of the Committee shall have the right of attendance, however other individuals may be invited to attend all or part of any meeting as and when appropriate.
9. The Company Secretary or their nominee shall act as the Secretary of the Committee.

### **Notice of meetings**

10. Meetings of the Committee shall be convened by the Secretary or Chairman of the Committee at the request of any of its members or at the request of the external auditors if they consider it necessary.
11. Notice of each meeting confirming the venue, date and time, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and any other person required to attend.

### **Minutes of Meetings**

12. The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
13. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board.

### **Annual General Meeting**

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

### **Authority**

15. The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any Director, the Company Secretary, the Investment Manager or any other service provider to the Company.
16. The Committee is authorised by the Board to obtain, at the Company's expense, outside legal or other independent professional advice on any matter within its terms of reference and to secure the attendance at meetings of non-Committee members with relevant experience and expertise if it considers this necessary.
17. The Committee shall 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.

### **Duties**

18. The duties of the Audit and Risk Committee for the Company, and any subsidiaries, are:
  - a) To monitor and oversee the integrity and basis of financial reporting and the internal controls in place for the Company, including analysing and reporting on the key risks, and any emerging risks, that the Company faces;
  - 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 monitor the integrity of the annual and interim financial statements, any other significant financial information and any formal announcements relating to the Company's financial performance (including, but not limited to financial information on the Company's website, factsheets, the Key Information Document and circulars to shareholders);
  - e) To review and report to the Board on significant financial reporting issues and judgements which are communicated to the Committee by the external auditor; and
  - f) To consider other areas, including taxation, on which the Board has requested the Committee's opinion.
19. The Committee shall at all times have regard to and as far as practicable comply with, or disclose why there is non-compliance with, the Listing Rules of the Financial Conduct Authority, the Disclosure Guidance and Transparency Rules and the recommendations of the AIC Code of Corporate Governance and associated guidance.

#### **Financial Reporting**

20. To monitor the integrity of the annual and half-year financial reports and any formal announcements relating to the Company's financial performance, focusing particularly on:
- a) The consistency of and any changes in accounting policies and practices;
  - b) Major judgemental areas particularly in the recognition of income and expenditure and in the valuation of securities, including unquoted securities (if applicable);
  - c) Significant adjustments resulting from the audit;
  - d) The clarity of disclosure in the financial reports and the context in which statements are made in the reports;
  - e) All material information presented with the financial reports, such as the strategic review and the governance report section contained within the annual financial report (insofar as it relates to the audit and risk management);
  - f) Accuracy of information presented and how it has been checked and verified before publication;
  - g) The going concern assumption and the statement of viability;
  - h) Compliance with UK Generally Accepted Accounting Practice and the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued by the AIC;

- i) Compliance with UK Listing Rules, Stock Exchange Rules and legal requirements for an investment company;
- j) Providing advice (where requested by the board) 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 position and performance, business model and strategy; and
- k) Taxation impacting on the Company, including maintaining its investment trust status and any charges as to taxation such as corporation tax, irrecoverable VAT and stamp duty and how it is accounted for and reported in the financial accounts.

## **21. External Audit**

- a) To consider and make recommendations to the Board, in relation to the appointment, re-appointment and removal of the Company's external 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;
- b) To review the effectiveness of the audit process and to discuss problems and reservations arising from the audit and any matters the auditor may wish to discuss (in the absence of management where necessary) including levels of errors or differences identified during the audit process;
- c) To review the terms of engagement and remuneration of the auditor, including an examination of how the fee basis compares with market peers, before submission to the Board, including reviewing the audit planning documentation;
- d) To review the external auditor's report to the Committee and, if any, the Board's response;
- e) To review any representation letter(s) requested by the external auditor before they are signed by the Board;
- f) To assess the independence and objectivity of the auditors 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;
- g) To develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidelines on the matter;
- h) To monitor the auditor's compliance with guidance on rotation of audit partners (every five years) and periodic rotation of audit firms (every ten years); and
- i) To consider the risks associated with the withdrawal of the auditor from the market.

### **Internal Audit**

22. To consider annually whether there should be an internal audit function and make recommendations to the Board accordingly.

### **Internal Control and Risk Management**

23. To review the company's internal control and risk management systems and the Company's proposed statement on internal control, prior to endorsement by the Board.
24. To review the disclosures in the annual accounts on risk factors and whether there are any significant changes that should be specifically referred to in the annual or interim accounts.
25. To advise the Board on the Company's overall risk appetite, tolerance, and strategy, taking account of the current and prospective macroeconomic and financial environment.
26. To maintain and review the Company's risk map to oversee and advise the Board on the current risk exposures of the Company and future risk strategy. Set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance.
27. To review the Company's capability to identify and manage changing and emerging risks.
28. To review reports on any material breaches of the Company's investment restrictions and guidelines and the adequacy of proposed action.
29. To work and liaise as necessary with all other Board Committees.
30. To consider the findings of internal investigations and the Board's response.

### **Other Matters**

31. To review the Company's anti-bribery, anti-money laundering and tax evasion policies and to consider procedures of this nature in place with the Company's service providers. Should any breaches in policies apply to review the actions taken and the adequacy of such actions.
32. To review the Company's arrangements for raising concerns in confidence about possible wrongdoing in financial reporting and other matters (whistleblowing), and to consider arrangements of this nature by the Investment Manager and other service providers.
33. To consider other topics, as defined by the Board, including the evolution of reporting standards for responsible investment and business ethics.
34. To oversee any investigation of activities which are within its terms of reference.
35. The Committee shall have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required.

36. Committee members should be provided with appropriate and timely training, as necessary, both in the form of an induction programme for new members and on an ongoing basis for all members through regular updates from the Company Secretary and administrator on regulatory and accounting issues.

#### **Reporting Responsibilities**

37. The Committee Chairman shall report formally to the Board on the proceedings of the Committee after each meeting on all matters within its duties and responsibilities.
38. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
39. The Committee shall compile a report to shareholders on its activities and the Company's risk management and strategy to be included in the Company's annual report.

#### **Review of Performance**

40. At least once a year the Committee should 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.