

# THE GLOBAL SMALLER COMPANIES TRUST PLC (the 'Company')

## AUDIT AND MANAGEMENT ENGAGEMENT COMMITTEE ('AUDIT COMMITTEE')

### TERMS OF REFERENCE

#### **1. Constitution**

The Audit Committee was established by a resolution of the Board of Directors of the Company in April 1993. The Audit Committee is accountable to the Board.

#### **2. Composition of the Audit Committee**

The Audit Committee has been established by the Board and will comprise all the independent Directors of the Company. It is chaired by Ms Jo Dixon. The Board should make appointments to the Audit Committee in consultation with the Audit Committee Chairman. At least one member of the Audit Committee should have recent and relevant financial experience. The Audit Committee as a whole should have competence relevant to the sector in which the Company operates. A process for induction and ongoing training has been established.

The Audit Committee Chairman shall attend the annual general meeting to answer any questions on the Committee's activities.

##### **a. Attendance**

The following may be required to attend the relevant parts of the meetings:-

The Fund Manager  
The External Auditor  
Head of Investment Trusts  
The Investment Trust Accountant  
Head of Risk  
Head of Compliance  
The Company Secretary  
Such other employees of the Manager who the Audit Committee may require to attend

##### **b. Meetings**

The Audit Committee will meet at least twice a year (currently June and December) and additional meetings shall be called by the Company Secretary at the request of the Chairman of the Audit Committee.

A quorum shall be any two members including the Chairman of the Audit Committee, or the Chairman's nominated delegate.

#### **3. Background**

The Company has no executive directors or employees and all services are supplied by Columbia Threadneedle Investment Business Limited ('CTIBL') which is also the Company Secretary.

The audit and compliance committee established by Columbia Threadneedle AM (Holdings) plc ('CTAMH') is responsible for matters pertaining to the CTAMH Group. The Audit Committee will therefore not consider matters relating to CTAMH, save as they affect the Company.

The Audit Committee will expect to be given prompt warning by CTAMH of matters of significant concern to the Company.

Any matter considered by the CTAMH audit and compliance committee, which is relevant to the Company, shall be reported to the Audit Committee without delay.

#### **4. Responsibilities**

##### **a. Financial Reporting**

- i. The Audit Committee will review, and report to the Board on, the significant financial reporting issues and judgements made in preparing the annual and half year reports, results announcements and related formal statements (e.g. the release of price sensitive information), significant accounting policies, any changes to them and any significant estimates and judgements. The Audit Committee will also review the adequacy and scope of the external audit thereof and compliance with regulatory and financial reporting requirements, the clarity and completeness of disclosures in the financial statements and consider whether the disclosures made are set properly in context.
- ii. The Audit Committee should review related information presented with the financial statements, including the Strategic Report, Directors' Report and corporate governance statements relating to the audit and to risk management as well as assess and evaluate the Company's future prospects and the statement to be made on viability.
- iii. In particular, the Audit Committee should satisfy itself that the annual and half-yearly accounts and any other significant published financial information are properly and carefully prepared and give a fair representation of the Company's affairs.
- iv. Where requested by the Board, the Audit 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.
- v. For the purpose of exercising its responsibilities, as set out above, the Audit Committee will meet shortly before the accounts are presented to the Board in June (annual results) and December (half year results). At these meetings, the Investment Trust Accountant will report any changes in accounting policy or treatment affecting the Company's report and accounts and any other material matters which the members of the Audit Committee might not otherwise understand. The Audit Committee will consider whether the accounting policies and allocation bases adopted are appropriate.
- vi. The Audit Committee shall have timely and unrestricted access to relevant documents relating to the affairs of the Company.

##### **b. Internal Controls and Risk Management Systems**

The Company's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Board that it has done so. The Audit Committee is responsible for reviewing reports received from management on the effectiveness of the internal control and risk management systems and making recommendations to the Board.

- i. At the meeting reviewing the annual results (in June) the Audit Committee will receive a statement by the directors of CTAMH on internal corporate governance containing a report in relation thereto from the reporting accountants (ISAE/AAF report). The CTAMH audit and compliance committee will submit a letter concerning the policies, procedures and controls associated with the management of the affairs of the Company.
- ii. The Chairman of the Audit Committee may request to meet with CTIBL staff to discuss relevant matters.
- iii. Each quarter a control report will be prepared by the Head of Risk or their deputy. At meetings considering the half year and annual results, the Head of Risk or their delegate will be in attendance to provide a verbal report. A risk control assessment is kept up to date for review by the Audit Committee at the meetings considering the half year and annual results. The executive summary is also updated for inclusion in the papers for each Board meeting.
- iv. The Audit Committee should review and approve the statements included in the annual report in relation to internal control and risk management systems.

**c. Audit**

i. Internal

The Audit Committee will, on an annual basis, monitor and review the need for an internal audit function and make the appropriate recommendation to the Board and explain in the annual report why, if concluded, such a function is not necessary.

ii. External

The appointment of the external auditors shall be considered regularly by the Audit Committee. The Audit Committee shall oversee the selection process for new auditors and if an auditor resigns the Audit Committee shall investigate the issues leading to this and decide whether any action is required.

The Audit Committee will oversee the relationship with the external auditor including (but not limited to):

- (i) 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;
- (ii) approval of their terms of engagement for audit services, including any engagement letter issued at the start of each audit and the scope of the audit;
- (iii) assessing annually in June 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;
- (iv) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
- (v) approval of the terms of engagement of the auditors prior to commencement for any non-audit services in accordance with the agreed policy as set out below.
- (vi) 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
- (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.

The Audit Committee will 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 Audit Committee should ensure that key partners within the appointed firm are rotated from time to time. The acceptance of any new representative of the auditors should be considered prior to appointment (current recommendations provide for each audit partner to serve a maximum five year term as audit partner for a company).

The Audit Committee will ensure that at least once every ten years the audit services contract is put out to tender\* to enable the Audit Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process.

\*The next tender is due in the second half of 2028 for a new appointment at the AGM in 2029.

The Audit Committee will review and approve the annual audit plan and ensure that it is consistent with the scope of the audit for the forthcoming year-end financial statements.

The external auditors of the Company shall be present at the Audit Committee meeting reviewing the annual results. The Audit Committee shall at any time meet separately with the auditors if it so desires, however, the Audit Committee will meet with the external auditors at least once a year without CTIBL in attendance to discuss their remit and any issues arising from the audit.

In order to monitor the Company's relationship with its external auditors and to ensure that full information is made available to them, the Audit Committee will receive a report from the Investment Trust Accountant at the June Audit Committee meeting.

The Investment Trust Accountant will also give advice to the Audit Committee concerning the auditors' remuneration for audit and non-audit services and re-appointment.

The Audit Committee will review the audit letter of representation prior to approval and signature by the Board and review the management letter and management's response to the auditor's findings and recommendations.

It will also keep under review its policy on the supply of non-audit services by the auditor which ensures that no engagement will be permitted if:

- the provision of the services would contravene any regulation or ethical standard;
- the auditors are not considered to be expert providers of the non-audit services; and
- the provision of such services by the auditor creates a conflict of interest for either the Board or the Manager; the services are considered to be likely to inhibit the auditor's independence or objectivity as auditors.

Tax and certain legal services are prohibited as well as certain internal control and risk management procedures. Reference should be made to the FRC's 'black list' of non-audit services that cannot be provided by the external auditor.

In particular, the Audit Committee has a policy that the costs of all non-audit services sought from the auditors in any one year should not normally exceed 30% of the likely audit fees for that year and in any event, 70% of the average paid over the last three years such that:-

- the costs would ordinarily be limited to 30% of prior year audit fee (as the current year number might not be known);
- the services could be instructed by CTIBL without prior reference up to that amount;
- specific Audit Committee approval is required before any costs are incurred which could exceed the 30% limit; and
- before making any decision to exceed the 30% limit, the Audit Committee should review the three-year rolling average of such costs to ensure that the three year rule is not accidentally breached.

#### **d. Whistleblowing/Anti-Bribery/Gifts and Corporate Hospitality Policies**

The Audit Committee will periodically review arrangements at CTAMH by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and to establish that, in so far as they may affect the Company, arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action. It will also review the Anti-Bribery/Anti-Corruption and Tax Evasion policies and procedures that are in place. It will also review the Company's own policies in these matters.

#### **e. Management Agreement**

The Audit Committee will, on an annual basis, review the performance of and fee paid to CTIBL for the services that it provides under the management contract together with the terms of such contract.

**f. Additional Fees**

The Audit Committee will consider any extra charges proposed by CTIBL over and above the management fee.

**g. Custodian and Depositary Agreements**

The Audit Committee shall be responsible for the periodic review of the services provided by, and agreements with, JPMorgan Chase for the provision of custodian and JPMorgan Europe for the provision of depositary services to the Company and make any necessary recommendations to the Board.

**h. Other matters**

The Audit Committee will review such other matters as directed by the Board.

**5. Reporting**

The minutes of each meeting of the Audit Committee will be circulated to all Directors of the Company and reports made to the Board as appropriate.

As part of the disclosure requirements set out in the Appendix, the Committee will compile a report to shareholders on its activities to be included in the Company's Report and Accounts and will describe the work of the Audit Committee in discharging the responsibilities set out in these Terms of Reference and should include:-

- i) a summary of the role of the Audit Committee;
- ii) the names and qualifications of all members of the Audit Committee during the period;
- iii) the number of Audit Committee meetings and attendance by each member;
- iv) a report on the way the Audit Committee has discharged its responsibilities;
- v) the significant issues that the Audit Committee considered in relation to the financial statements and how these issues were addressed;
- vi) a statement that the Audit Committee considered the Report and Accounts, taken as a whole, is fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's performance, business model and strategy; and an explanation to the shareholders of how, if the auditors provide non-audit services, auditor objectivity and independence is safeguarded.

These terms of reference are to be made available on request and are published on the Company's website.