

# Audit Committee

# Terms of Reference

November 2020

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## **1. Membership**

- 1.1 The Audit Committee (the “**Committee**”) shall comprise of at least three members, all of whom shall be independent non-executive directors. At least one member shall have recent and relevant financial experience and the Committee as a whole shall have competence relevant to the sector in which Caledonia Investments plc (the “**Company**”) operates. The chairman of the Company’s board of directors (the “**Board**”) shall not be a member of the Committee.
- 1.2 Members of the Committee shall be appointed by the Board on the recommendation of the Company’s Nomination Committee in consultation with the chairman of the Committee (the “**Committee Chairman**”).
- 1.3 Only members of the Committee have the right to attend Committee meetings. However, the Chief Executive, the Chief Financial Officer and the lead partner from the Company’s external auditor will be invited to attend meetings of the Committee on a regular basis. Other non-members may be invited to attend all or part of any meeting where considered appropriate and necessary.
- 1.4 The Board shall appoint the Committee Chairman. In the absence of the Committee Chairman, the remaining members present shall elect one of themselves to chair the meeting.

## **2. Secretary**

The Company Secretary, or his or her nominee, shall act as the secretary of the Committee (the “**Committee Secretary**”) and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration of the matters to be considered.

## **3. Quorum**

The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all and 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 three times each year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 4.2 Outside of the formal meeting programme, the Committee Chairman will maintain a dialogue with key individuals involved in the Company’s governance, including the chairman of the Board, the Chief Executive, the Chief Financial Officer, the lead partner from the Company’s external auditor and the Committee Secretary.

## **5. Notice of meetings**

- 5.1 Meetings of the Committee shall be called by the Committee Secretary at the request of the Committee Chairman or any of its members, or at the request of the lead partner from the Company’s external 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 and any other person required to attend no later than five 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 Committee Secretary shall minute the proceedings and decisions of all Committee meetings, including recording the names of those present and in attendance.
- 6.2 Draft minutes of Committee meetings shall be circulated to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board and the Company Secretary unless, exceptionally, it would be inappropriate to do so.

## **7. Engagement with shareholders**

The Committee Chairman should attend the Company’s annual general meeting (the “**AGM**”) to answer any shareholder questions on the Committee’s activities. In addition, the Committee Chairman should, where considered appropriate, seek engagement with shareholders on significant matters related to the Committee’s areas of responsibility.

## **8. Duties**

The main role and responsibilities of the Audit Committee shall include the matters set out below.

### **8.1 *Financial reporting***

- 8.1.1 To monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, preliminary results announcements and any other formal announcements relating thereto, and to review and report to the Board on significant financial reporting issues and judgements, including valuations of portfolio investments contained in them.
- 8.1.2 To review and challenge where necessary the application of significant accounting policies and any changes to them, the methods used to account for significant or unusual transactions where different approaches are possible, whether the Company has adopted appropriate accounting policies and made appropriate estimates and judgements taking into account the external auditor’s views on the financial statements and all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to audit and risk management.

## 8.2 *Narrative reporting*

Where requested by the Board, to review the contents of the annual report and accounts and advise the Board as to whether, taken as a whole, it is fair, balanced and understandable and provides information necessary for shareholders to assess the Company's performance, business model and strategy.

## 8.3 *Internal controls and risk management systems*

8.3.1 To keep under review the Company's internal financial control systems that identify, assess, manage and monitor financial risks, and the Company's other internal controls and risk management systems.

8.3.2 To review the statements to be included in the annual report concerning internal control, risk management, including the assessment or principal risks and emerging risks, and the viability statement.

## 8.4 *Fraud and bribery prevention*

To review the Company's procedures for detecting fraud and preventing bribery.

## 8.5 *Internal audit*

8.5.1 To consider annually whether there is a need for an internal audit function.

8.5.2 Where it has been identified that an internal audit function is required:

- (i) to approve the appointment or termination of appointment of the head of internal audit;
- (ii) to review and approve the role and mandate of internal audit to ensure that it is aligned to the key risks of the business;
- (iii) to ensure internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate and ensure open communication between internal audit and different functions;
- (iv) to ensure that the head of internal audit has direct access to the chairman of the Board and to the Committee Chairman;
- (v) to ensure coordination between internal audit and the external auditor; and
- (vi) to carry out an annual review of the effectiveness of internal audit, including whether an independent, third party review of processes is appropriate.

## 8.6 *External audit*

8.6.1 To consider and make recommendations to the Board, to be put to the shareholders for their approval in general meeting, in relation to the appointment, re-

appointment and removal of the Company's external auditor, including when the external audit should next be put out to tender.

- 8.6.2 To develop and oversee the selection procedure for the appointment of the Company's external audit firm in accordance with applicable UK Corporate Governance Code (the "**Code**"), legal and regulatory requirements, ensuring that all tendering firms have access to all necessary information during the tendering process.
- 8.6.3 To develop and oversee the policy for the selection and appointment of external audit firms by Caledonia Private Capital investee companies.
- 8.6.4 If an external auditor resigns, to investigate the issues leading to the resignation and decide whether any action is required.
- 8.6.5 To oversee the relationship with the external auditor, including:
- (i) approval of its remuneration, to encompass both fees for audit and non-audit services, and ensure that the level of fees is appropriate to enable an effective and high-quality audit to be conducted; and
  - (ii) approval of its terms of engagement, including any engagement letters issued.
- 8.6.6 To assess annually the external auditor's independence and objectivity taking into account relevant law, regulation, ethical standards and other professional requirements and the Company and its group's relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats.
- 8.6.7 To assess annually the qualifications, expertise and resources, and independence of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures.
- 8.6.8 To develop and implement the Company's formal policy on the provision of non-audit services by the external auditor, including prior approval of non-audit services by the Committee and specifying the types of non-audit service to be preapproved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements.
- 8.6.9 To agree an annual audit plan and review the findings of the audit with the external auditor.
- 8.6.10 To meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and, at least once a year, meet with the external auditor without management present, to discuss the auditor's remit and any issues arising from the audit.

- 8.6.11 To review the effectiveness of the audit process, including an assessment of the quality of the external audit, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee.
- 8.6.12 To review any representation letter requested by the external auditor before it is signed by management and management's response to the auditor's findings and recommendations.

## **9. Reporting responsibilities**

- 9.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all relevant matters within its duties and responsibilities and how it has discharged its responsibilities and make whatever recommendations it deems appropriate to the Board on any area within its remit where action or improvement is needed.
- 9.2 The Committee shall produce a report on its activities to be included in the Company's annual report, including all information required by the Code.

## **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 Secretariat for advice and 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 all relevant laws and regulations, the provisions of the Code and published guidance, the requirements of the Financial Conduct Authority's Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook 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 other committees of the Board ensuring interaction between committees and with the Board is reviewed regularly.
- 10.6 Ensure that a periodic evaluation of the Committee's performance is carried out.
- 10.7 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**

- 11.1 The Committee is empowered by the Board to review and monitor any matters within its terms of reference. It is authorised to seek any information it may require from any officer or employee of the Company and all such individuals are directed to cooperate with any request by the Committee made within its terms of reference.

- 11.2 The Committee is also authorised by the Board to obtain, at the Company’s expense, outside legal, accounting or other professional advice on any matters within its terms of reference.