

**BRITISH SMALLER COMPANIES VCT PLC**  
**AUDIT COMMITTEE TERMS OF REFERENCE**

**Constitution**

1. The Board has established a Committee of the Board known as the Audit Committee.

**Membership**

2. The Committee shall consist of three directors each of whom shall be independent of the Investment Advisor. A quorum shall be two directors.
3. The Chairman of the Committee shall be Edward Buchan.

**Attendance at Meetings**

4. Representatives of the Investment Adviser, in particular the Managing Director and Finance Officer of the Investment Adviser, and the external auditors shall normally attend meetings. Prior to the representatives of the Investment Adviser joining the meeting the Committee shall have the opportunity to discuss any relevant matters with the auditors in private.
5. The Company Secretary shall be the Secretary to the Committee.

**Frequency of Meetings**

6. Meetings shall be held not less than twice a year. Normally these meetings will be in November and June to review the interim and full year accounts respectively and other meetings will be called as necessary for example to approve quarterly valuations.

**Authority**

7. The Committee has no executive authority. Matters reserved to the board are as set out in the Schedule.
8. 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 executive director or officer of the Investment Advisor and all such employees are directed to co-operate with any request made by the Committee.
9. The Committee is authorised by the Board to obtain outside independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

**Duties**

10. The duties of the Committee shall be:
  - to consider and make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor and any questions of resignation or dismissal;
  - to discuss with the external auditor before the audit commences the nature and scope of the audit;
  - to review the annual financial statements before submission to the board, focusing particularly on:

- any changes in accounting policies and practices
- major judgmental areas
- significant adjustments resulting from the audit
- the going concern assumption
- compliance with accounting standards
- compliance with legal requirements and venture capital trust regulations
- to monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
- to review the Company's internal financial controls and, unless expressly addressed by the board itself, to review the Company's internal control and risk management systems;
- to discuss problems arising from the audit and any matters the auditor may wish to discuss (in the absence of representatives of the Investment Adviser);
- 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;
- to develop and implement policy on engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm;
- to ensure that at least once every ten years the audit services contract is put out to tender to enable the 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;
- to keep under review the effectiveness of internal control systems, and in particular view the external auditor's management letter and management response;
- to consider reports of the Company's VCT Status Advisor with regard to compliance with relevant requirements affecting the status of the Company as a venture capital trust;
- to keep under review the level of external professional fees incurred by the Company;
- to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; and
- to consider other topics as instructed by the Board.

## **Reporting Procedures**

11. The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board.
12. The terms of reference and the effectiveness of the Committee to be reviewed annually.
13. The terms of reference should be made available on a website that is maintained on behalf of the Company.
14. The work and membership of the Committee should be described in the annual report.

## **Formal schedule of matters specifically reserved to the board for decision**

The formal schedule of matters is as follows:-

Venture capital investment and divestment decisions save where the board has previously agreed to delegate such decisions to a committee of the board or, as in the case of AIM investments up to £250,000, to the Fund Manager acting in conjunction with the Chairman.

Gilts transactions are carried out by the appointed gilts manager under instruction from the Fund Manager subject to the investment policy framework approved by the board

Dividend policy and declaration of dividends

Accounting policy (subject to review through the audit committee)

Share buy backs. Setting the policy to be operated by the Investment Advisor for share buy backs

Approving annual budgets

Approving Management Accounts

Approving Interim Accounts

Approving Annual Accounts

Appointing/removing the auditors and tax advisers, legal advisers and gilts managers, bankers and brokers to the Company

Appointment of Directors and Secretary to the Board