

## **BMO CAPITAL AND INCOME INVESTMENT TRUST PLC**

### **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 on 1 November 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 non-executive Directors of the Company. The Board will 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 Chairman of the Committee is appointed by the Board from amongst the independent non-executive directors.

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

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

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

ii BMO Investment Business Limited is the secretary to the Audit Committee.

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

The Audit Committee will meet at least three times a year and additional meetings shall be called by the Secretary at the request of the Chairman of the Audit Committee. There should be at least one meeting per year during part of which the external auditors attend without management present.

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

#### **3. Responsibilities**

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

i. The Audit Committee will review and challenge where necessary, the actions and judgements of management, in relation to the half-year and annual financial statements before submission to the Board, paying particular attention to:

- critical accounting policies and practices, and any changes in them;

- decisions requiring a major element of judgement;
  - the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
  - the clarity of disclosures;
  - significant adjustments resulting from the audit;
  - the going concern assumption;
  - compliance with accounting standards;
  - all material information presented with the financial statements, such as the strategic report, Directors' Report and the corporate governance statement (insofar as it relates to the audit and to risk management);
  - compliance with stock exchange and other legal requirements;
  - reviewing the company's statement on internal control systems prior to endorsement by the Board and to review the policies and process for identifying and assessing business risks and the management of those risks by the company as well as assessing and evaluating the Company's future prospects and the statement to be made on viability; and
  - Where requested by the board, the 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.
- ii. 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 May (half-year results) and November (final 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 on which the members of the Audit Committee might require clarification. The Audit Committee will consider whether the accounting policies and allocation bases adopted are appropriate.
- iii. 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 Audit Committee is responsible for reviewing the Company's internal financial controls, the internal control and risk management systems and making recommendations to the Board

- i At the meeting reviewing the half-year results the Audit Committee will receive a statement by the directors of BMO GAM on internal corporate governance containing a report in relation thereto from the reporting accountants (ISAE/AAF report). BMO GAMS's audit and compliance committee will submit a letter concerning the policies, procedures and controls associated with the management of the affairs of the Company.

The Chairman of the Audit Committee may meet the BMO GAM Head of Business Risk or his delegate to discuss relevant matters.

- ii. Each quarter a control report will be prepared by the BMO GAM Head of Business Risk or his deputy. At the meeting considering the half-yearly and final results, he or his deputy 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-yearly and final results. The executive summary is also updated for inclusion in the papers for each Board meeting.
- iii. The Audit Committee should review and approve the statements included in the annual report in relation to internal control and the 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, make the appropriate recommendation to the Board and explain in the annual report how they have reached their view.

ii. External

The appointment of the external auditors shall be considered regularly by the Committee. 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.

The 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 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 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 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 (ethical standards requirements provides for each audit partner to serve a maximum five year term as audit partner for a company).

The Committee will 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.

**\*The next tender is due in 2020.**

The Committee will meet regularly with the external auditors, including once at the planning stage before the audit and once after the audit at the reporting stage to discuss findings.

The 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 Committee meeting reviewing the annual results. The Committee shall at any time meet separately with the auditors if so desires, however, the Committee will meet with the external auditors at least once a year without BMO GAM 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 Committee will receive a report from the Investment Trust Accountant at the November Committee meeting.

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

The Committee will review the audit letter of representation prior to approval and signature by the Board.

The Committee will inform the Company's regulator about the outcome of the audit and how it contributed to the integrity of the financial report-DTR 7.1.3 (5).

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 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 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 BMO GAM 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 Committee should review the

three year rolling average of such costs to ensure that three year rule is not accidentally breached.

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

The Audit Committee will periodically review arrangements at BMO GAM 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 BMO GAM for the services that it provides under the management contract together with the terms of such contract. It will also receive regular reports on the operation of any services delegated to outsourced providers.

**f. Additional Fees**

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

**g. Custodian and Depository Arrangements**

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 depository 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**

If meetings of the Board and of the Audit Committee are held contemporaneously those meetings will be minuted separately.

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

The Audit Committee members will review annually the terms of reference of the Committee and make recommendations to the Board as appropriate.

The Audit Committee Chairman shall attend the AGM and shall answer questions, through the Chairman of the Board, on the Audit Committee's activities and responsibilities.

These terms of reference are to be made available on request and are published through the BMO GAM website.