

# **TR Property Investment Trust plc**

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## **Audit Committee**

### **Terms of Reference**

**(adopted: 3 June 2004 and Amended on 26 May 2009, 23 November 2010 and 26 November 2013)**

#### **Constitution**

The Committee is appointed as a Committee of the Board in accordance with the Articles of Association of the Company.

#### **Membership**

- The Committee shall comprise all directors who are independent of the Manager at least one of whom shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies;
- Members of the committee shall be appointed by the board, in consultation with the chairman of the audit committee;
- The Committee shall appoint its own Chairman;
- The chairman of the board shall be a member of the committee;
- A quorum is any three independent directors present in person;
- Non-independent directors and employees of the Manager may be invited to attend all or part of any meeting as and when appropriate and necessary;
- The Secretary to the Board shall act as Secretary to the Committee;
- Representatives of the Company's Auditors and Accountants will be invited to attend.

#### **Secretary**

The company secretary or their nominee shall act as the secretary of the committee and will ensure that the committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues..

#### **Quorum**

The quorum necessary for the transaction of business shall be 3 members. A duly convened meeting of the committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the committee.

#### **Frequency of Meetings**

The committee shall meet at least twice a year, normally immediately preceding the Board meetings at which the financial accounts for the year end and half year are reviewed.

Outside of the formal meeting programme, the committee chairman will maintain a dialogue with key individuals involved in the company's governance, including the board chairman, the Manager and the external audit lead partner.

#### **Notice of Meetings**

- Meetings of the committee shall be called by the secretary of the committee at the request of any of its members or at the request of external auditors if they consider it necessary.
- 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, any person required to attend no later than 4 working 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.

## **Minutes of Meetings**

- The secretary shall minute the proceedings and resolutions of all meetings of the committee, including recording the names of those present and in attendance.
- The secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- Minutes of committee meetings shall be circulated promptly to all members of the committee and, once agreed, to all members of the board, unless a conflict of interest exists.

## **Annual General Meeting**

The chairman of the committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the committee's activities.

### **1. Duties**

The Committee should carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

#### **1.1. Financial Reporting**

- 1.1.1. The Committee shall monitor the integrity of the financial statements of the company, including its annual and interim reports, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor. The Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.
- 1.1.2. The Committee shall review and challenge where necessary:
  - 1.1.2.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the company/group;
  - 1.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
  - 1.1.2.3 whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - 1.1.2.4 the clarity of disclosure in the company's financial reports and the context in which statements are made; and
  - 1.1.2.5 all material information presented with the financial statements, such as the strategic review and the corporate governance statement (insofar as it relates to the audit and risk management);
- 1.1.3 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the company, it shall report its views to the board..

#### **1.2. Narrative Reporting**

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.

### 1.3. Internal Audit

As the Company has no employees and its operational functions are undertaken by third parties, the Audit Committee does not consider it necessary for the Company to establish its own internal audit function.

The Committee shall:

- 1.3.1 consider on an annual basis whether there is a need for an internal audit function and make a recommendation to the board;
- 1.3.2 explain the reasons why there is no internal audit function in the Annual Report.

### 1.4. Compliance and Fraud

1.4.1 The Committee shall:

- 1.4.1.1 Review the company's procedures for detecting fraud; and
- 1.4.1.2 Review the company's systems and controls for the prevention of bribery and receive reports on non-compliance;

### 1.5. External Audit

The Committee shall:

- 1.5.1. 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 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;
- 1.5.2. 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;
- 1.5.3. if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 1.5.4. oversee the relationship with the external auditor including (but not limited to):
  - 1.5.4.1. 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;
  - 1.5.4.2. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 1.5.4.3. assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non audit services;

- 1.5.4.4. seek annually from the external auditors, information about their firm's policies for maintaining independence;
  - 1.5.4.5. satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
  - 1.5.4.6. agreeing with the Board a policy on the employment of former employees of the company's auditor, then monitoring the implementation of this policy;
  - 1.5.4.7. 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
  - 1.5.4.8. 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;
  - 1.5.4.9. evaluate the risks to the quality and effectiveness of the financial reporting process and consider the need to include the risk of the withdrawal of the external auditor from the market in that evaluation.
- 1.5.5. meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage). The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
  - 1.5.6. review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team; and;
  - 1.5.7. review the findings of the audit with the external auditor. This shall include but not be limited to, the following;
    - 1.5.7.1. a discussion of any major issues which arose during the audit,
    - 1.5.7.2. any accounting and audit judgements, and
    - 1.5.7.3. levels of errors identified during the audit.

The Committee shall also review the effectiveness of the audit.

- 1.5.8. review the effectiveness of the audit;
- 1.5.9. review any representation letter(s) requested by the external auditor before they are signed by management;
- 1.5.10. develop and implement a policy on the supply of non-audit services by the external auditor, to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.

## 1.4 **Corporate Governance and Internal Controls (year end)**

The Committee shall report to the Board with appropriate recommendations on:

- 1.41 the Directors' Report, Statement on Corporate Governance, Directors' Responsibilities Statement and Directors' Remuneration Report;
- 1.42 key control risks, including the Company's Risk Map;
- 1.43 the Matrix of Investments Limits and Restrictions;
- 1.44 the annual Investment Manager's Report on Internal Controls and its compliance therewith;
- 1.45 and on any other such matters as the Committee considers should be brought to the attention of the board.

## 2. **Policy on non-audit services provided by external auditors**

2.1 The Audit Committee has established this policy to safeguard the independence and objectivity of the Company's external auditor in relation to the provision of non-audit services.

The policy is intended to avoid situations where the auditor's independence and objectivity could be compromised, including but not limited to the following examples:

- 2.1.1. Where the external auditor would be responsible for auditing work it has performed;
  - 2.1.2. Where the external auditor would make management decisions on behalf of the company;
  - 2.1.3. Where the external auditor would assume the role of advocate for the company;
  - 2.1.4. Where mutuality of interest would be created between the external auditor and the Company.
- 2.2 The Audit Committee will determine whether it is satisfied that the independence of the Auditors engaged on the Company's work is not jeopardised, taking into account the Auditors' own submissions to the Committee. The Audit Committee will report to the Board accordingly.
- 2.3 As regards the use of the Auditors for work beyond that necessary for expressing an opinion on the accounts of the Company, there needs to be a distinction between:
- (i) work that is clearly audit related;
  - (ii) work that is best performed by the Auditors as a result of their unique position and knowledge of the Company; and
  - (iii) other work

The following non-audit services may be provided by the Group's external auditor and do not require specific approval by the Audit Committee (they are regarded as pre-approved):

- 2.3.1. Work which is clearly audit related;
- 2.3.2. Reviews of interim financial information;

2.3.3. Consultation and assurance on the interpretation and implementation of accounting standards, financial reporting matters, tax and governance regulations best performed by the Auditors as a result of their unique position and knowledge of the company;

2.3.4. Reporting required by law or regulation to be provided by the auditor..

In respect of other categories of work, the Board would normally review a range of possible suppliers of such services and select the most appropriate. If the Board identifies the Auditors as being the best suppliers in a specific field, and also believes that such an assignment does not run the risk of prejudicing the Auditors' independence, then an evaluated request will be made to the Audit Committee to confirm the appointment. This would apply to any appointment involving fees in excess of half the annual audit fee.

This would include:

2.3.5. Advice and assurance in respect of direct and indirect tax matters including tax compliance, routine tax planning advice, tax consultancy services and employee tax services, including share plans;

2.3.6. Due diligence investigations related to potential acquisitions, disposals or joint ventures;

2.3.7. Internal accounting and risk management control reviews, including information systems, and reviews of policy and procedure compliance;

2.3.8. Control compliance, attestation reports or reasonableness reports as required by third parties;

2.3.9. Project assurance and advice on business process improvement;

2.4. The following non-audit services may not be provided by the Group's external auditor:

2.4.1. Bookkeeping and other services relating to accounting records and corporate financial statements;

2.4.2. The design, implementation and operation of financial information systems;

2.4.3. Actuarial, internal audit and internal control functions;

2.4.4. Executive management of company operations and activities, including acting temporarily or permanently as a director, officer or employee of the Group;

2.4.5. Legal, broker, investment adviser or investment banking services;

2.4.6. Appraisal or valuation services.

2.5. Certain types of services, because of their size or nature or because of special terms and conditions, are not specifically prohibited but may risk creating threats to the auditor's independence and therefore require specific approval by the Audit Committee before the external auditor is engaged. The following engagements require such approval in advance:

2.5.1. Any new engagement with the external auditor in excess of £70,000 for an individual service or specific project;

2.5.2. Any engagement with significant relevance to and impact on the financial statements;

2.5.3. Any engagement with a contingent fee basis unless that fee is estimated to be less than £35,000.

2.6. Any engagement where this policy would prevent the Company from appointing the external auditor but where exceptional circumstances render it potentially appropriate for such an appointment to be made must also be specifically approved by the Audit Committee.

### **3. Reporting Responsibilities**

- 3.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 3.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 3.3 The Committee shall compile a report to shareholders on its activities to be included in the Annual Report.

### **4. Other Matters**

The Committee shall:

- 4.1 have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;
- 4.2 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;
- 4.3 give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing Rules, Disclosure and Transparency Rules and any other applicable Rules, as appropriate;
- 4.4 be responsible for co-ordination of the external auditors;
- 4.5 oversee any investigation of activities which are within its terms of reference and act as a court of the last resort; and
- 4.6 at least once a year, 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.

### **5. Authority**

The Committee is authorised:

- 5.1 to obtain, at the company's expense, outside legal or other professional advice on any matter within its terms of reference.
- 5.2 to 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.