

THE HENDERSON SMALLER COMPANIES INVESTMENT TRUST PLC (the “Company”)

Terms of Reference for the Audit Committee

The Audit Committee (the “Committee”) is appointed as a committee of the Board in accordance with the articles of association.

1. Membership

- 1.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Audit Committee. The Committee shall be made up of at least three members.
- 1.2 All members of the Committee shall be independent non-executive directors, at least one of whom shall have recent and relevant financial experience. The Chairman of the Board may be a member of the Committee but shall not chair the Committee.
- 1.3 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as representatives from the Manager and BNP Paribas Securities Services may be invited to attend all or part of any meeting as and when appropriate. The Chairman of the Board shall have a standing invitation to attend all meetings of the Audit Committee.
- 1.4 The Committee shall 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 annually, meet with the external auditor without the presence of an officer or employee of the Manager to discuss the auditor’s remit and any issues arising from the audit.
- 1.5 The Board shall appoint the Committee Chairman who shall be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

2. Secretary

- 2.1 The Corporate Secretary or its nominee shall act as the Secretary of the Committee.
- 2.2 The Committee shall have access to the services of the Secretary on all Committee matters, including assisting the Chairman in planning the Committee’s work, drawing up meeting agendas, maintenance of minutes, drafting of material about its activities for its annual report, collection and distribution of information and provision of any necessary practical support.
- 2.3 The Secretary will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

3. Quorum

- 3.1 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 or 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 twice a year and otherwise as required.
- 4.2 Notices, agendas and supporting papers can be sent in electronic form where the recipient has agreed to receive documents in such a way.

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5. Engagement with shareholders

- 5.1 The Chairman of the Committee shall attend the annual general meeting and be prepared to respond to any shareholder questions on the Committee’s activities and on the Committee’s section of the annual report. In addition, the Committee Chairman should engage with shareholders on significant matters related to the duties set out below.

6. Duties

6.1 Financial Reporting

- 6.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-year reports (where applicable) and any formal announcements relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain.
- 6.1.2 The Committee shall review the significant financial reporting issues and judgements made in connection with the preparation of the Company’s financial statements and related formal statements and challenge where necessary:
- 6.1.2.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company;
 - 6.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
 - 6.1.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - 6.1.2.4 the clarity and completeness of disclosures in the Company’s financial statements and the context in which statements are made;
 - 6.1.2.5 all material information presented with the financial statements, such as the strategic report (including the chairman’s statement and the portfolio review), the directors’ remuneration report and the corporate governance report (insofar as it relates to the audit and risk management);
 - 6.1.2.6 the Committee shall review any other statements requiring Board approval which contain financial information first, where to carry out a review prior to Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules or Disclosure Guidance and Transparency Rules sourcebook;
 - 6.1.2.7 the Company’s statement on internal control systems, prior to endorsement by the Board, and the policies and processes for identifying and assessing business risks and the management of those risks by the Company and the other narrative statements contained in the annual and half-year reports, including the viability statement and statement on going concern;
 - 6.1.2.8 the need to ensure that the information presented is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company’s position and performance, business model and strategy. The Committee should also advise the Board on whether the annual report and accounts informs the Board’s statement in the annual report on these matters;
 - 6.1.2.9 reviewing the going concern of the Company at the year end and half-year end and assessing the prospects of the Company, over a period it considers to be appropriate, making a recommendation to the Board regarding the continued operation of the Company and advising the Board on whether the Company is

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able to meet its liabilities as they fall due over the period of their assessment;
and

- 6.1.2.10 any other statements requiring Board approval which contain financial information, where to carry out the review prior to Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules, Prospectus Rules and Disclosure, Guidance and Transparency Rules sourcebook;

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.

6.2 Internal Controls and Risk Management Systems

The Committee shall:

- 6.2.1 keep under review the effectiveness of the Company’s internal controls and risk management systems which identify, assess, manage and monitor financial and other risks, including the Company’s risk map;
- 6.2.2 review and approve the statements to be included in the Annual Report concerning (but not limited to) internal controls and risk management including the assessment of principal risks and emerging risks;
- 6.2.3 monitor and review the remit and effectiveness of the Manager’s Internal Audit and Business Risk functions in the context of its overall risk management system;
- 6.2.4 meet representatives of the Manager’s business risk, internal audit, information security and business continuity functions, on a regular basis, to discuss their remit and any issues arising;
- 6.2.5 monitor and review the processes, assurance and reporting protocols of all matters in relation to compliance with the Bribery Act 2010, Criminal Finances Act 2017 and Modern Slavery Act 2015; and
- 6.2.6 review the Manager’s and the Company’s other key service providers’ annual assurance reports on the effectiveness of the internal controls in place at the respective organisations and discuss these with representatives from the Manager’s business risk function when required to ensure any appropriate follow up action is undertaken.

6.3 External Audit

The Committee shall:

- 6.3.1 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 develop and conduct the tender 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;
- 6.3.2 oversee the relationship with the external auditor including (but not limited to):
 - 6.3.2.1 approval of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
 - 6.3.2.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - 6.3.2.3 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 (the policy should consider the nature of the non-audit services, whether the external audit firm is the most suitable supplier, the fees for non-audit services, the criteria governing compensation and assessment of whether non-audit services have a direct or material effect on the audited financial statements);

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- 6.3.2.4 satisfying itself that there are no relationships on an annual basis between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor’s independence and objectivity;
 - 6.3.2.5 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;
 - 6.3.2.6 assessing annually the qualifications, expertise and resources of the external auditor;
 - 6.3.2.7 investigating the issues giving rise to any resignation and consider what action is required;
 - 6.3.2.8 considering the need to include the risk of the withdrawal of the auditor from the market in their risk evaluation and planning; and
 - 6.3.2.9 the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures and consideration of the audit firm’s annual transparency reports, where available, an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor’s response to questions from the Committee.
- 6.3.3 review the annual audit plan and ensure that it is consistent with the scope of the audit engagement (after prior review by the Committee Chairman);
- 6.3.4 review the findings of the audit with the external auditor. This shall include but not be limited to the following:
- 6.3.4.1 a discussion of any major issues which arose during the audit;
 - 6.3.4.2 any accounting and audit judgements;
 - 6.3.4.3 levels of errors identified during the audit; and
 - 6.3.4.4 the auditor’s explanation as to how the risks to audit quality were addressed, key accounting and audit judgements, and their view of their interactions with the Manager.

The Committee shall also:

- 6.3.5 review any representation letter(s) requested by the external auditor before they are signed by the Board;
- 6.3.6 review any management letter and management’s response to the auditor’s findings and recommendations;
- 6.3.7 implement policy on engaging the external auditor for non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard, and reporting to the Board on any improvement or action required; and
- 6.3.8 at the end of the annual audit cycle, the Audit Committee should assess the effectiveness of the audit process. In the course of doing so, the Audit Committee should:
 - 6.3.8.1 review whether the auditor has met the agreed audit plan and understand the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks;
 - 6.3.8.2 assess the performance of the external auditor, considering their robustness and perceptiveness in their handling of the key accounting and audit judgements identified, in responding to questions from the Audit Committees, in their commentary where appropriate on the systems of internal control, in their quality control procedures and steps taken to respond to relevant regulatory, professional and other changes;
 - 6.3.8.3 obtain feedback about the conduct of the audit from key people of the Manager involved, e.g. the Financial Reporting Manager or the Company Secretary; and
 - 6.3.8.4 review and monitor the content of any external auditor’s management letter, in order to assess whether it is based on a good understanding of the Company’s

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business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon.

6.4 Reporting Responsibilities

6.4.1 The Committee Chairman shall report formally to the Board after each meeting on all matters within its mandate and how it has discharged its responsibilities. If applicable this shall include the approach taken to the appointment or reappointment of the external auditor, length and tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans, significant issues that it considered in relation to the financial statements and how these were addressed, and any other issues on which the Board has requested the Committee’s opinion.

6.4.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

6.5 Communication with Shareholders

6.5.1 The terms of reference of the Committee, including its role and the authority delegated to it by the Board, should be made available.

6.5.2 A separate section in the annual report should describe the work of the Committee in discharging its responsibilities, should include:

6.5.2.1 the significant issues that the Committee considered relating to the financial statements, and how these issues were addressed;

6.5.2.2 an explanation of how it has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans;

6.5.2.3 in the case of a Board not accepting the Committee’s recommendation on the external auditor appointment, reappointment or removal, a statement from the Committee explaining its recommendation and the reasons why the board has taken a different position; and

6.5.2.4 an explanation of how auditor independence and objectivity are safeguarded, if the external auditor provides non-audit services.

6.6 Other Matters

The Committee shall:

6.6.1 have access to sufficient resources in order to carry out its duties,

6.6.2 be provided with appropriate and timely training, in the form of ongoing training at the Company’s expense;

6.6.3 give due consideration to laws and regulations, the provisions of the UK Code of Corporate Governance and the requirements of the UK Listing Authority’s Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency sourcebook and any other applicable rules as appropriate;

6.6.4 oversee any investigation of activities which are within its terms of reference; and

6.6.5 at least once a year, review its own constitution and terms of reference.

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6.7 Duty under s172 Companies Act 2006

6.7.1 To fulfil their duty under s172 Companies Act 2006, each individual director must act in the way he/she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders as a whole and in doing so, have regard to a number of broader matters including:

- (a) the likely consequences of any decision in the long-term;
- (b) the need to foster the Company’s business relationships with suppliers, customers and others;
- (c) the impact of the Company’s operations on the community and the environment;
- (d) the desirability of the Company maintaining a reputation for high standards of business conduct; and
- (e) the need to act fairly between members of the Company.

6.7.2 Committee members should have regard to these matters when considering the business of the Committee.

7. Authority

The Committee is authorised:

- 7.1 to seek information it requires from employees of the Manager or BNP Paribas Securities Services, as appropriate in order to perform its duties; and
- 7.2 to obtain, at the Company’s expense, outside legal or other professional advice on any matter within its terms of reference.

8. Whistleblowing

The Committee:

- 8.1 should review arrangements by which the Manager’s staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow up action.

(Amended 16 July 2020)