

AQUILA ENERGY EFFICIENCY TRUST PLC

AUDIT AND RISK COMMITTEE – TERMS OF REFERENCE

1. COMPOSITION OF THE COMMITTEE

- 1.1 The committee was constituted at a full meeting of the board held on 5th May 2021 in accordance with the articles of association of the company.
- 1.2 The committee shall comprise at least two members, all of whom shall be independent non-executive directors. The committee shall include at least one member of the remuneration committee and/or include one director specifically responsible for risk. 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 the company operates. Members shall have appropriate knowledge, skills and expertise to fully understand risk appetite and strategy/members as a whole shall have relevant risk expertise.
- 1.3 The board shall appoint the committee chair. In the absence of the committee chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

2. TERM

- 2.1 Members of the committee shall be appointed by the board, on the recommendation of the nomination committee in consultation with the chair of the audit and risk committee. Appointments shall be for a period of up to three years which may be extended for up to two additional three-year periods, provided members continue to be independent.

3. MEETINGS

- 3.1 The committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 3.2 Outside of the formal meeting programme, the committee chair, and to a lesser extent the other committee members, will maintain a dialogue with key individuals involved in the company's governance, including the board chair and the auditors.
- 3.3 The quorum necessary for the transaction of business shall be two members.
- 3.4 Meetings of the committee shall be called by the secretary of the committee at the request of the committee chair or any of its members, or at the request of the auditors if they consider it necessary.
- 3.5 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 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.
- 3.6 The secretary shall minute the proceedings and decisions of all committee meetings, including recording the names of those present and in attendance.
- 3.7 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.

- 3.8 The committee chair should attend the annual general meeting to answer shareholder questions on the committee's activities. In addition the committee chair should seek engagement with shareholders on significant matters related to the committee's areas of responsibility.

4. ATTENDANCE

- 4.1 Only members of the committee have the right to attend committee meetings. However, the committee may invite other board members to attend meetings and may request representatives of the auditors, AIFM, investment adviser and administrator or any other relevant service provider to attend all or part of any meeting as and when appropriate and necessary.

5. RESOURCES

- 5.1 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.

6. AUTHORITY

- 6.1 The committee is authorised to:
- 6.1.1 Seek any information it requires from the board or any director or employee of the investment adviser, or a representative of any third-party service provider in order to perform its duties.
 - 6.1.2 Obtain, at the company's expense, independent legal, accounting or other professional advice on any matter if it believes it necessary to do so.
 - 6.1.3 Delegate any matter or matters to another committee as it deems appropriate.
 - 6.1.4 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. If the board has not accepted the committee's recommendation on the auditor appointment, reappointment or removal, the annual report should include a statement explaining the committee's recommendation and the reasons why the board has taken a different position.

7. PRINCIPAL RESPONSIBILITY

- 7.1 The committee should have oversight of the group as a whole and, unless required otherwise by regulation, carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

Financial reporting

- 7.2 The committee shall monitor the integrity of the financial statements of the company, including its annual and half-yearly reports, preliminary announcements and any other formal statements relating to its financial performance, and review and report to the board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor.
- 7.3 In particular, the committee shall review and challenge where necessary:
- 7.3.1 the application of significant accounting policies and any changes to them

- 7.3.2 the methods used to account for significant or unusual transactions where different approaches are possible
 - 7.3.3 whether the company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the auditor's views on the financial statements
 - 7.3.4 the clarity and completeness of disclosures in the financial statements and the context in which statements are made
 - 7.3.5 all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management.
- 7.4 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 FCA's Listing Rules, Prospectus Regulation Rules and Disclosure Guidance and Transparency Rules sourcebook.
- 7.5 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.

Narrative reporting

- 7.6 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 and whether it informs the board's statement in the annual report on these matters that is required under the AIC Corporate Governance Code (the "**Code**").

Internal controls and risk management systems

- 7.7 The committee shall:
- 7.7.1 keep under review the company's internal financial control systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems
 - 7.7.2 review and approve the statements to be included in the annual report concerning internal control, risk management, including the assessment of principal risks and emerging risks, and the viability statement.

Compliance, speaking-up and fraud

- 7.8 The committee shall:
- 7.8.1 review the adequacy and security of the company's arrangements by which staff of the AIFM, investment adviser, administrator and other service providers may raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action
 - 7.8.2 review the company's procedures for detecting fraud

- 7.8.3 review the company's systems and controls for the prevention of bribery and receive reports on non-compliance

Internal audit

- 7.9 The committee shall, annually, monitor and review the need for an internal audit function, and make an appropriate recommendation to the board.

External audit

- 7.10 The committee shall:
- 7.10.1 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 auditor
 - 7.10.2 develop and oversee the selection procedure for the appointment of the audit firm in accordance with applicable Code and regulatory requirements, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process
 - 7.10.3 if an auditor resigns, investigate the issues leading to this and decide whether any action is required
 - 7.10.4 oversee the relationship with the auditor. In this context the committee shall:
 - (a) approve their remuneration, including 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
 - (b) approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit
 - 7.10.5 assess annually the auditor's independence and objectivity taking into account relevant law, regulation, the Ethical Standard and other professional requirements and the 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 including the provision of any non-audit services
 - 7.10.6 satisfy itself that there are no relationships between the auditor and the company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity
 - 7.10.7 agree with the board a policy on the employment of former employees of the company's auditor, taking into account the Ethical Standard and legal requirements, and monitor the implementation of this policy
 - 7.10.8 monitor the auditor's processes for maintaining independence, its compliance with relevant law, regulation, other professional requirements and the Ethical Standard, including the guidance on the rotation of audit partner and staff
 - 7.10.9 monitor the level of fees paid by the company to the auditor compared to the overall fee income of the firm, office and partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standard

- 7.10.10 assess annually the qualifications, expertise and resources, and independence of the auditor and the effectiveness of the audit process, which shall include a report from the auditor on their own internal quality procedures
- 7.10.11 evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the auditor's communications with the committee
- 7.10.12 develop and recommend to the board the company's formal policy on the provision of non-audit services by the auditor, including prior approval of non-audit services by the committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:
 - (a) threats to the independence and objectivity of the auditor and any safeguards in place
 - (b) the nature of the non-audit services
 - (c) whether the audit firm is the most suitable supplier of the non-audit service
 - (d) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee
 - (e) the criteria governing compensation
- 7.10.13 meet regularly with the 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 auditor without management being present, to discuss the auditor's remit and any issues arising from the audit
- 7.10.14 discuss with the auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team
- 7.10.15 review the findings of the audit with the auditor. This shall include but not be limited to, the following:
 - (a) a discussion of any major issues which arose during the audit
 - (b) the auditor's explanation of how the risks to audit quality were addressed
 - (c) key accounting and audit judgements
 - (d) the auditor's view of their interactions with senior management
 - (e) levels of errors identified during the audit
- 7.10.16 review any representation letter(s) requested by the auditor before they are signed by management
- 7.10.17 review the management letter and management's response to the auditor's findings and recommendations

- 7.10.18 review the effectiveness of the audit process, including 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

Risk appetite, tolerance and strategy

- 7.11 The committee shall:

- 7.11.1 advise the board on the company's overall risk appetite, tolerance and strategy, and the principal and emerging risks the company is willing to take in order to achieve its long-term strategic objectives. The audit and risk committee should seek assurance on the risks the company identifies as those to which the business may be exposed. The risks will be specific to the company's circumstances but are likely to include threats to the business model or future performance, operational risk, transactional risk, capital, insolvency, market risk, liquidity, counterparty risk, conduct risk, material litigation, reputational risk, Environmental Social and Governance issues, ethical codes, IT operations, health and safety, pandemic risk, business continuity plans, duties under the Companies Act 2006 and other risks specific to the company's sector and its operations which will need to be identified.
- 7.11.2 advise the board on the likelihood and the impact of principal risks materialising, and the management and mitigation of principal risks to reduce the likelihood of their incidence or their impact.
- 7.11.3 advise the board on the risk aspects of proposed changes to strategy and strategic transactions including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focussing in particular on implications for the risk appetite, tolerance and strategy of the company, and taking independent external advice where appropriate and available.

8. NET ASSET VALUE

- 8.1 The committee shall review the calculation of the Net Asset Value of the Company's portfolio.

9. REPORTING RESPONSIBILITIES

- 9.1 The committee chair shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the board on how it has discharged its responsibilities. This report shall include
- 9.1.1 the significant issues that it considered in relation to the financial statements (required under paragraph 7.2) and how these were addressed
- 9.1.2 its assessment of the effectiveness of the audit process (required under paragraph 7.10.10), the approach taken to the appointment or reappointment of the auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans
- 9.1.3 any other issues on which the board has requested the committee's opinion
- 9.2 The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.

- 9.3 The committee shall compile a report on its activities to be included in the company's annual report. The report should describe the work of the audit and risk committee, including:
- 9.3.1 the significant issues that the committee considered in relation to the financial statements and how these issues were addressed
 - 9.3.2 an explanation of how the committee has assessed the independence and effectiveness of the audit process and the approach taken to the appointment or reappointment of the 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
 - 9.3.3 an explanation of how auditor independence and objectivity are safeguarded if the auditor provides non-audit services, having regard to matters communicated to it by the auditor and all other information requirements set out in the Code
- 9.4 In the compiling the reports referred to in 9.1 and 9.3, the committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the board's assessment of whether the company is a going concern and the inputs to the board's viability statement. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

10. OTHER MATTERS

- 10.1 The committee shall:
- 10.1.1 Have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required.
 - 10.1.2 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.
 - 10.1.3 Give due consideration to all relevant laws and regulations, the provisions of the Code and published guidance, the requirements of the FCA's Listing Rules, Prospectus Regulation Rules and Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules, as appropriate.
 - 10.1.4 Be responsible for oversight of the coordination of the auditors.
 - 10.1.5 Oversee any investigation of activities which are within its terms of reference.
 - 10.1.6 Work and liaise as necessary with all other board committees ensuring interaction between committees and with the board is reviewed regularly, taking particular account of the impact of risk management and internal controls being delegated to different committees.
 - 10.1.7 Ensure that a periodic evaluation of the committee's performance is carried out.
 - 10.1.8 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.

10th February 2022