

The Independent Investment Trust PLC

Audit Committee Terms of Reference

Prime Responsibility	To assist the board in carrying out its responsibilities relating to the Company's accounting policies, internal controls, risk management and financial reporting functions.
Membership and quorum	The members of the committee shall be appointed by the board, on the recommendation of the nomination committee, and shall consist of not less than three members. At least one member shall have recent and relevant financial experience. The audit committee as a whole shall have competence relevant to the sector. A quorum shall be two members. The chairman of the committee shall be appointed by the board.
Attendance at meetings	<p>The managing director and representatives of the secretaries, representatives of the secretaries' Compliance and Internal Audit departments and a representative of the external auditors may be required to attend meetings. The auditor is available to attend the meeting as required.</p> <p>At least once a year the committee will meet the Company's auditor without the presence of any employee of the secretaries.</p>
Secretaries	Baillie Gifford & Co shall act as secretaries to the committee.
Frequency of meetings	Meetings shall be held not less than twice a year. Any member of the committee or the external auditors may request a meeting if they consider that one is necessary.
Training	An induction programme is provided for new audit committee members and ongoing training is available for existing members of the committee.
Authority	<p>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 the managing director and the secretaries.</p> <p>The committee is authorised by the board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.</p>
Duties	<p>Financial and Narrative Reporting</p> <p>— The Committee shall monitor the integrity of the financial statements of the company, including its annual and interim reports 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.</p> <p>In particular the Committee shall review and challenge where necessary:</p> <ol style="list-style-type: none">i. the consistency of, and any changes in accounting policies and practices;ii. major judgmental areas including, but not limited to, the review of the basis of the valuation of any unlisted investments;iii. significant adjustments resulting from the audit;iv. the methods used to account for significant or unusual transactions where different approaches are possible;v. compliance with applicable accounting standards and practices;vi. the clarity and completeness of disclosure in the company's financial reports and the context in which statements are made;

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Duties (continued)

- vii. all material information presented with the financial statements, such as the strategic report and the corporate governance statement relating to the audit and risk management);
- viii. the viability statement and going concern assumption; and
- ix. compliance with applicable UKLA, London Stock Exchange, legal and other regulatory requirements.

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.

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 position and performance, business model and strategy.

Internal Controls and Risk Management Systems

The Committee shall:

- keep under review the adequacy of the Company's internal financial controls and effectiveness of its internal control and risk management systems; and
- review and approve the statements to be included in the annual report concerning internal controls and risk management.

External Audit

The Committee shall:

- consider the appointment, re-appointment and removal of the external auditor and to make recommendations to the board. The Committee shall oversee the selection process for a new auditor and if an auditor resigns the committee shall investigate the issues leading to this and decide whether action is required;
 - consider whether the audit services contract should be 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, to oversee the selection process;
 - make recommendations to the board on the remuneration of the external auditor, whether for audit or non-audit services, and on whether the level of fees is appropriate to enable an effective and high quality audit to be conducted;
 - approval of the auditors' terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit.
 - review and monitor annually the auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
 - monitor the Auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner;
 - assess annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process;
 - 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;
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Duties (continued)

- discuss problems and reservations arising from the annual audit, and any other matters the auditor may wish to discuss (in the absence of management where necessary);
- review any representation letter(s) requested by the external auditor;
- review the auditors' management letter and management's response; and
- develop and implement policy on the engagement of the external auditor to supply non-audit services, if appropriate.

Internal Audit, Compliance and Whistleblowing

The Committee shall:

- consider annually whether there is a need for an internal audit function and to explain the reasons for the absence of such a function in the Annual Report.
- review regular reports from the secretaries' Compliance department;
- review regular reports from the secretaries' Internal Audit department; and
- review arrangements in place at Baillie Gifford & Co and at the Company whereby staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters insofar as they may affect the Company and to establish that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

Reporting procedures

The secretaries shall circulate the minutes of meetings of the committee to all members of the board.

The committee chairman shall report to the board after each meeting, identifying any matters in respect of which the Committee considers that action or improvement is needed and making recommendations as to the steps to be taken.

A separate section of the Annual Report should describe the work of the committee in discharging its responsibilities, including:

- the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;
- an explanation of how the Committee has addressed the 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; and
- if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence are safeguarded.

Other Matters

The Committee shall:

- review the investment management agreement with Baillie Gifford & Co once a year;
 - consider the continuing appointment of the investment manager and make a recommendation to the Board; and
 - arrange for a periodic review of its own performance and, at least annually, review these terms of reference and recommend any changes it considers necessary to the board for approval.
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