

# JPMORGAN MID CAP INVESTMENT TRUST PLC

## AUDIT COMMITTEE TERMS OF REFERENCE

Adopted on 16th September 2014

### 1. Membership

- 1.1 The Committee shall comprise at least three members. 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.
- 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 ideally with a professional qualification from one of the professional accountancy bodies. The Chairman of the Board shall not be a member of the Committee, but shall attend at the invitation of the Committee.
- 1.3 Only members of the Committee have the right to attend Committee meetings. However, other non-members, for example representatives from the auditors and from JPMorgan Funds Limited /JPMorgan Asset Management ('JPMF /JPMAM') may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 1.4 The Board shall appoint the Committee Chairman. In the absence of the Committee Chairman, the remaining members present shall elect one of themselves to chair the meeting.

### 2. Secretary

The Company Secretary or his or her 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.

### 3. Quorum

The quorum necessary for the transaction of business shall be two members.

### 4. Frequency of meetings

The Committee shall meet at least two times a year at appropriate times and otherwise as required.

### 5. Notice of meetings

- 5.1 Meetings of the Committee shall be convened by the Secretary of the Committee at the request of any of its members or at the request of the external audit lead partner if they consider it necessary.
- 5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date of the meeting, 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. The agenda shall be circulated together with relevant supporting papers to Committee members and to other attendees as appropriate.

## **6. Minutes of meetings**

- 6.1 The Secretary shall minute the proceedings of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2 Draft minutes of Committee meetings shall be circulated at the next Audit Committee meeting to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board unless it would be inappropriate to do so in the opinion of the Committee Chairman.

## **7. Annual General Meeting**

The Committee Chairman should attend the annual general meeting to respond to questions from shareholders on the Committee's activities.

## **8. Duties**

The Committee should carry out the duties below.

### **8.1 Financial reporting**

- 8.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgments which they contain having regard to matters communicated to it by the auditor.
- 8.1.2 In particular, the Committee shall review and challenge where necessary:
  - 8.1.2.1 the consistency of, and any changes to, significant accounting policies;
  - 8.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
  - 8.1.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor;
  - 8.1.2.4 the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
  - 8.1.2.5 all material information presented with the financial statements, such as the strategic review, business review and the corporate governance statements relating to the audit and to risk management.

8.1.3 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.

## 8.2 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.

## 8.3 External Audit

The Committee shall:

8.3.1 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;

8.3.2 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;

8.3.3 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;

8.3.4 oversee the relationship with the external auditor including (but not limited to):

8.3.4.1 recommendations on their remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;

8.3.4.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

8.3.4.3 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;

8.3.4.4 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;

8.3.4.5 agreeing with the Board a policy on the employment of former employees of the Company's auditor, and monitoring the implementation of this policy;

- 8.3.4.6 monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
- 8.3.4.7 assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
- 8.3.4.8 seeking to ensure with JPMF /JPMAM co-ordination with the activities of the internal audit function; and
- 8.3.4.9 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.
- 8.3.5 meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without *representatives from JPMAM* being present, to discuss the auditor's remit and any issues arising from the audit;
- 8.3.6 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
- 8.3.7 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
  - 8.3.7.1 a discussion of any major issues which arose during the audit;
  - 8.3.7.2 key accounting and audit judgments;
  - 8.3.7.3 levels of errors identified during the audit; and
  - 8.3.7.4 the effectiveness of the audit process.

The Committee shall also:

- 8.3.8 review any representation letter(s) requested by the external auditor before they are signed by the Chairman;
- 8.3.9 review JPMF's back-to-back letter and JPMF's response to the auditor's findings and Recommendations, if applicable; and
- 8.3.10 develop and implement 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.

## 8.4 Risk

The Committee shall:

- 8.4.1 via review of the Company's investment restrictions and guidelines document, advise the Board on the Company's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment.
- 8.4.2 Maintain and review the Company's risk matrix to oversee and advise the Board on the current risk exposures of the Company and future risk strategy. Set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance.
- 8.4.3 review the Company's capability to identify and manage new risk types in conjunction with the Audit Committee.
- 8.4.4 review reports and report back to the Board on any material breaches of the Company's investment restrictions and guidelines and the adequacy of proposed action.
- 8.4.5 to review JPMF's and the external Auditors' reports on the effectiveness of systems of internal control and risk management and to review and approve the statements to be included in the annual report concerning internal controls and risk management.
- 8.4.6 to review regular reports from JPMAM's Compliance Officer and Investment Director and keep under review the adequacy and effectiveness of these functions;
- 8.4.7 review the adequacy and security of JPMF /JPMAM's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.
- 8.4.8 review the Company's procedures for detecting fraud.
- 8.4.9 review the Company's procedures for the prevention of bribery.

## 9. Reporting responsibilities

- 9.1 The Committee Chairman 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 8.1.1 and 8.2) and how these were addressed;
  - 9.1.2 its assessment of the effectiveness of the external audit process (required under paragraph 8.6.4.7) and its recommendation on the appointment or reappointment of the external auditor; and
  - 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 include an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor; and all other information requirements set out in the Code.
- 9.4 In compiling the reports referred to in 9.1 and 9.3, the Committee should exercise judgment 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. 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**

The Committee shall:

- 10.1 have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for assistance as required;
- 10.2 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;
- 10.3 give due consideration to laws and regulations, the provisions of the Code and the requirements of the UK Listing Authority Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate;
- 10.4 oversee any investigation of activities which are within its terms of reference;
- 10.5 work and liaise as necessary with all other Board Committees; and
- 10.5 arrange for periodic reviews of its own performance and, 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.

## **11. Authority**

The Committee is authorised:

- 11.1 to seek any information it requires from any employee of JPMF /JPMAM/Director of the Company in order to perform its duties; and

- 11.2 to obtain, at the Company's expense, external legal or other professional advice on any matter within its terms of reference where required;
- 11.3 call any employee of JPMF /JPMAM to be questioned at a meeting of the Committee as and when required; and
- 11.4 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.