

THE HENDERSON SMALLER COMPANIES INVESTMENT TRUST PLC

Terms of Reference for the Audit and Risk Committee

The Audit and Risk 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 Chair of the 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 Chair 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 Chair of the Board shall have a standing invitation to attend all meetings of the Committee.
- 1.4 The external auditors will be invited to attend meetings of the Committee at least on an annual basis.
- 1.5 The Board shall appoint the Committee Chair who shall be an independent non-executive director. 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. Secretary

- 2.1 The Corporate Secretary or its nominee shall act as the Secretary of the Committee.

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 three times a year and otherwise as required.
- 4.2 Notices, agendas and supporting papers will be sent in electronic form unless the recipient has requested to receive documents in a different format.

5. Duties

5.1 Financial Reporting

- 5.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-year reports (where applicable) and any other formal announcements relating to its financial performance.
- 5.1.2 The Committee shall review the significant financial reporting issues and judgements made in connection with the Company's financial statements and related formal statements and challenge where necessary:
 - 5.1.2.1 the consistency of, and any changes to, accounting policies both on a year-on-year basis and across the Company;
 - 5.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;

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- 5.1.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- 5.1.2.4 the clarity and completeness of disclosures in the Company's financial statements and the context in which statements are made;
- 5.1.2.5 all material information presented with the financial statements, such as the Chair's statement, the Portfolio Review, the Directors' Remuneration Report, the viability statement, the going concern statement and the corporate governance statement (insofar as it relates to the audit and risk management);
- 5.1.2.6 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;
- 5.1.2.7 the Company's statement on internal control systems, prior to endorsement by the Board, and the policies and process 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; and
- 5.1.2.8 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.

5.2 Internal Controls and Risk Management Systems

The Committee shall:

- 5.2.1 keep under review the effectiveness of the Company's internal controls and risk management systems;
- 5.2.2 review and approve the statements to be included in the annual report concerning (but not limited to) internal controls and risk management;
- 5.2.3 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;
- 5.2.4 meet representatives of the Manager's Business Risk and Internal Audit, on a regular basis, to discuss their remit and any issues arising;
- 5.2.5 consider annually whether the Company should have an internal audit function and make recommendations to the board accordingly; and
- 5.2.6 monitor and review the processes, assurance and reporting protocols of all matters in relation to the Bribery Act 2010 compliance.

5.3 External Audit

The Committee shall:

- 5.3.1 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 in accordance with the FRC's Audit Committees and the External Audit: Minimum Standard (the "Minimum Standard"). If an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required;
- 5.3.2 oversee the relationship with the external auditor including (but not limited to):
 - 5.3.2.1 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;
 - 5.3.2.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - 5.3.2.3 ensuring the external auditor has full access to key personnel and records;
 - 5.3.2.4 inviting challenge by the external auditor, giving due consideration to points raised and making changes to financial statements in response, where appropriate;
 - 5.3.2.5 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;

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- 5.3.2.6 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;
 - 5.3.2.7 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;
 - 5.3.2.8 assessing annually the qualifications, expertise, resources and independence of the external auditors and 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;
 - 5.3.2.9 investigating the issues giving rise to any resignation and consider what action is required;
 - 5.3.2.10 considering the need to include the risk of the withdrawal of the auditor from the market in their risk evaluation and planning; and
 - 5.3.2.11 review the FRC's annual report on the auditor and discuss the report with the auditor to obtain an understanding of how any issues identified are being addressed.
- 5.3.3 review the annual audit plan and ensure that it is consistent with the scope of the audit engagement (after prior review by the Committee Chair);
- 5.3.4 review the findings of the audit with the external auditor. This shall include but not be limited to the following:
- 5.3.4.1 a discussion of any major issues which arose during the audit;
 - 5.3.4.2 any accounting and audit judgements; and
 - 5.3.4.3 levels of errors identified during the audit.
- 5.3.5 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. 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.

At the end of the annual audit cycle, the Committee should assess the effectiveness of the audit process. In the course of doing so, the Committee should:

- 5.3.6 ask the auditor to explain the risks to audit quality that they identified and how these have been addressed;
- 5.3.7 discuss with the auditor the key audit firm and network level controls the auditor relied on to address the identified risks to audit quality and enquire about the findings from internal and external inspections of their audit and their audit firm;
- 5.3.8 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;
- 5.3.9 refer to the annual audit plan and consider whether the volume and type of resource (in terms of seniority and where relevant specialism) envisaged in the audit plan has been deployed;
- 5.3.10 refer to any commitments made during the tender process and consider whether these have been met;
- 5.3.11 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 Committee, 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;
- 5.3.12 obtain feedback about the conduct of the audit from key people involved, e.g. the Financial Reporting Manager and the Company Secretary, including consideration of the external auditor's reliance on internal audit;
- 5.3.13 review any representation letter(s) requested by the external auditor before they are signed by the Board; and
- 5.3.14 review and monitor the content of any external auditor's management letter to assess whether it is based on a good understanding of the Company's business, review the Manager's response to the auditor's findings and recommendations, establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon;

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- 5.3.15 obtain evidence of the effectiveness of the external audit and the auditor from those impacted by the audit/auditor, e.g.:
- evidence of challenging management and result;
 - how the auditor has responded to previous audit quality assessments and whether any Committee concerns have been addressed well;
 - auditor's own assessments of audit quality;
 - auditor's response to any FRC review of the Company's audit.

The Committee should satisfy itself that the quality of the audit is of a sufficiently high standard supported by evidence and be able to justify how the Committee arrived at its conclusion. There should be regular, open communication between the Committee and the auditor, as well as with the Company's management.

5.4 Duty under s172 Companies Act 2006

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:

- 5.4.1 the likely consequences of any decision in the long-term;
- 5.4.2 the need to foster the Company's business relationships with suppliers, customers and others;
- 5.4.3 the impact of the Company's operations on the community and the environment;
- 5.4.4 the desirability of the Company maintaining a reputation for high standards of business conduct; and
- 5.4.5 the need to act fairly between members of the Company.

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

6. Reporting responsibilities

- 6.1 The Committee Chair shall report formally to the Board after each meeting on its discussions, recommendations and actions to be taken, demonstrating the discharge of all its responsibilities.
- 6.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 6.3 The Annual Report should describe the work of the Committee and how it has discharged its mandate under its terms of reference. It should set out the activities it has undertaken to meet the requirements of the Minimum Standard, including the following:
 - 6.3.1 significant issues that the Committee considered relating to the financial statements, and how these issues were addressed;
 - 6.3.2 an explanation of the application of the Company's accounting policies;
 - 6.3.3 where shareholders have requested that certain matters be covered in an audit and that request has been rejected, an explanation of the reasons why;
 - 6.3.5 an explanation as to how the Committee 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 retendering plans;
 - 6.3.6 if a regulatory inspection of the quality of the company's audit has taken place, information about the findings of that review, together with any remedial action the auditor is taking in the light of these findings;
 - 6.3.7 if the auditor provides non-audit services, an explanation as to how auditor independence and objectivity are safeguarded; and
 - 6.3.7 how effective oversight over the auditor has been achieved throughout the year.

7. Communication with shareholders

- 7.1 The terms of reference of the Committee, including its role and the authority delegated to it by the Board, should be made available publicly.
- 7.3 The Chair of the Committee should attend the AGM to answer shareholders' questions on the Committee's activities and matters within the scope of the Committee's responsibilities. In addition, the Chair of the

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Committee shall be available to engage with shareholders on significant matters related to the Committee's areas of responsibility.

8 Other matters

The Committee shall:

- 8.1 have access to sufficient resources in order to carry out its duties,
- 8.2 be provided with appropriate and timely training, in the form of ongoing training at the Company's expense;
- 8.3 give due consideration to laws and regulations, the provisions of the AIC Code of Corporate Governance (the "Code") 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;
- 8.4 oversee any investigation of activities which are within its terms of reference; and
- 8.5 at least once a year, review its own constitution and terms of reference.

9. Authority

The Committee is authorised to:

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

10. Whistleblowing

The Committee 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.