

SECURE INCOME REIT PLC

TERMS OF REFERENCE OF THE AUDIT COMMITTEE



1 **MEMBERSHIP**

- 1.1 The board of directors of the company (the "**Board**") has resolved to establish a committee of the Board to be known as the Audit Committee.
- 1.2 Membership of the Audit Committee shall consist of 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.
- 1.3 All members of the committee shall be independent non-executive directors at least one of whom, ideally the chairman of the committee, 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.
- 1.4 Only members of the Audit Committee have the right to attend committee meetings. However, the external auditor and key finance personnel from the investment adviser will be invited to attend meetings of the committee on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 1.5 The Board shall appoint the committee chairman. In the absence of the committee chairman and/or an appointed deputy, the remaining members shall elect one of themselves to chair the meeting.

2 **SECRETARY**

The company secretary or his 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**

- 4.1 The committee shall meet at least two times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 4.2 Outside of the formal meeting programme, the committee chairman will maintain a dialogue with key individuals involved in the company's governance, including the Board chairman, the investment adviser, the property valuer and the external audit lead partner.

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 together with an agenda of items to be discussed, shall be forwarded to each member of the committee, any other person required to attend and all other non-executive directors, no later than three 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.

6 MINUTES OF MEETINGS

6.1 The secretary shall minute the proceedings and decisions of all committee meetings, including recording the names of those present and in attendance.

6.2 Draft minutes of committee meetings shall be circulated promptly 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 answer shareholder questions on the committee activities.

8 DUTIES

The committee should carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

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 judgements which they contain having regard to matters communicated to it by the investment adviser or the auditor.

8.1.2 In particular, the committee shall review and challenge where necessary:

- (a) the consistency of, and any changes to, accounting policies both on a year on year basis and across the company/group;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
- (c) whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (d) the clarity and completeness of disclosure in the company's financial reports and the context in which statements are made; and
- (e) all material information presented with the financial statements, such as the 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**

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 **Internal controls and risk management systems**

The committee shall:

- (a) keep under review the adequacy and effectiveness of the company's internal financial controls and internal control and risk management systems and those of the investment manager and any delegates of the investment manager as far as they are relevant to the Company;
- (b) at least once a year, review the group risk register which is to be maintained by the investment adviser and reported on to the committee; and
- (c) review and approve any statements to be included in the annual report concerning internal controls and risk management.

8.4 **Compliance whistleblowing and fraud**

The committee shall:

- (a) review the adequacy and security of the company's arrangements for the Board and the Company's contractors to 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 following up action;
- (b) review the company's and the investment manager's procedures for detecting fraud; and
- (c) review the company's and the investment manager's systems and controls for the prevention of bribery and receive reports on non-compliance.

8.5 **External Audit**

8.5.1 The committee shall:

- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment or removal of the company's external auditor;
- (b) 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;

- (c) if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (d) oversee the relationship with the external auditor including (but not limited to):
 - (i) 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;
 - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (iii) 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;
 - (iv) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the company or the investment adviser (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
 - (v) if required, agreeing with the Board a policy on the investment adviser or the Company's employment of former employees of the company's auditor, and monitoring the implementation of this policy;
 - (vi) 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;
 - (vii) 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; and
 - (viii) 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.
- (e) meet regularly with the external auditor (including once after the audit at the reporting stage and once prior to the interim results announcement) and at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit;
- (f) 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
- (g) review the findings of the audit with the external auditor. This shall include but not be limited, to the following:

- (i) a discussion of any major issues which arose during the audit;
- (ii) key accounting and audit judgements;
- (iii) levels of errors identified during the audit; and
- (iv) the effectiveness of the audit process.

8.5.2 The committee shall also:

- (a) review any representation letter(s) requested by the external auditor before they are signed the Board;
- (b) review the management letter issued either to the Company or as a result of the audit of the investment adviser and management's response to the auditor's findings and recommendations; and
- (c) if appropriate, 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.

8.6 **Other matters**

The committee shall:

- (a) review the investment manager's regulatory compliance reviews at least annually; and
- (b) review the investment manager's review of the Company's risk register at least annually, including a review of interest rate risk and exchange rate risk.

8.7 **Reporting responsibilities**

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 as appropriate:

- (a) the significant issues that it considered in relation to the financial statements (required under paragraph 8.1.1) and how these were addressed;
- (b) its review of the risk register maintained by the investment adviser (required under paragraph Clause 8.3(b));
- (c) its assessment of the effectiveness of the external audit process (required under paragraph 8.5.1(d)(vii)) and its recommendation on the appointment or reappointment of the external auditor; and
- (d) any other issues on which the Board has requested the committee's opinion.

8.8 The committee shall make whatever recommendations to the Board and/or the company's investment manager it deems appropriate on any area within its remit where action or improvements is needed.

8.9 The committee shall consider whether it is appropriate to include a report on its activities to be included in the company's annual report. To the extent deemed appropriate by the committee, the report may 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 UK Corporate Governance Code (to the extent deemed appropriate given the nature and size of the company).

8.10 In the compiling the reports referred to in paragraph 8.1 (*Financial reporting*) and paragraph 8.3 (*Internal controls and risk management systems*), 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.

9 **OTHER MATTERS**

The committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- (b) be provided with training to the extent and at such times as the committee deems necessary;
- (c) give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code (to the extent deemed appropriate given the nature and size of the company) and the requirements of the AIM Rules and the Disclosure and Transparency Rules and any other applicable rules, as appropriate;
- (d) be responsible for co-ordination of the internal and external auditors;
- (e) oversee any investigation of activities which are within its terms of reference;
- (f) work and liaise as necessary with the Board and all other Board committees; and
- (g) 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.

10 **AUTHORITY**

The committee is authorised to:

- (a) seek any information it requires from the investment manager and any employee of the company and the investment manager in order to perform its duties;

- (b) obtain, at the company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
- (c) call the investment manager and any employee of the company or the investment manager to be questioned at a meeting of the committee as and when required; and
- (d) 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.

Approved by the Board of Directors

30 May 2014