

# BlackRock Smaller Companies Trust plc

## **AUDIT COMMITTEE**

### **Terms of Reference of the Audit Committee 28 April 2021**

#### **1. NAME AND STATUS**

The Committee shall be a standing Committee of the Board known as the Audit Committee.

#### **2. MEMBERS AND CHAIRMAN**

- (a) The Committee shall comprise all the independent Directors of the Company.
- (b) The Board shall satisfy itself that at least one member of the Committee has recent and relevant financial experience, ideally with a professional qualification from one of the professional accountancy bodies and that the Committee as a whole has competence relevant to the sector in which the Company operates.
- (c) The Chairman of the Board shall not be a member of the Committee but may attend Committee Meetings by invitation.

#### **3. QUORUM**

The quorum for transaction of business by the Committee shall be any two members of the Committee.

#### **4. CONDUCT OF BUSINESS**

(a) Meetings

Meetings of the Committee shall normally be held twice a year to consider the annual and half-yearly financial reports (usually in October and April respectively). Any member of the Committee may request additional meetings if necessary. The Secretary shall ensure that adequate notice of meetings is given to all those entitled to attend confirming the venue, time and date of a meeting, together with an agenda of items to be discussed and supporting papers.

(b) Attendance at Meeting

- (i) No one other than the Chairman of the Committee and members of the Committee is entitled to be present at a meeting of the Committee. Others may attend meetings at the invitation of the Committee.
- (ii) The Secretary is responsible for ensuring that minutes of all proceedings at meetings of the Committee are maintained in the books of the Company in accordance with section 248 of the Companies Act 2006.

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(iii) A representative of the external auditors will normally be invited to attend meetings. The Committee shall meet with the external auditor at least once a year, without management being present to discuss their remit and any issues arising from the audit.

(c) Chairmanship of Meetings

If the Chairman of the Committee is not present the member of the Committee with the longest service as a Director who is present shall be Chairman of the meeting.

(d) Voting

Each member of the Committee shall have one vote. In the event of an equality of votes the resolution put shall be lost.

(e) Written Resolution

A Resolution in writing signed by all members of the Committee for the time being entitled to receive notice of a meeting of the Committee shall be as valid and effective as if the same had been passed at a meeting of the Committee duly convened and held.

(f) Minutes

Copies of the minutes of each meeting shall be sent by the Secretary after approval by the Committee Chairman to each Director of the Company.

### 5. **AUTHORITY OF THE COMMITTEE**

The Committee is authorised by the Board:

- (a) to investigate any matters within its terms of reference;
- (b) to seek any information it requires from the Investment Manager or the Secretary who will be directed to co-operate with any request made by the Committee;
- (c) 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; and
- (d) to make recommendations to the Board on any matters within its terms of reference.

The Board will provide the Committee with sufficient resources to undertake its duties.

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## 6. DUTIES OF THE COMMITTEE

The Committee shall:

### *Financial Statements*

- (a) monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, interim management statements, and any other formal announcements relating to the Company's 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.
- (b) review and challenge where necessary the Company's financial statements taking into account: (i) the consistency of, and any changes to, accounting policies; (ii) the methods used to account for significant or unusual transactions where different approaches are possible; (iii) the clarity of disclosure in the financial statements and the context in which statements are made; (iv) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements taking into account the views of the external auditor; (v) the going concern assumption to be made by the Board and the assumptions made in assessing the longer term viability of the Company and the appropriateness of the time period over which the assessment is made; and (vi) all material information presented with the financial statements, such as the business review/operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management);
- (c) 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.

### *Internal Control and Internal Audit External Auditors*

- (d) review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems;
- (e) reasonably satisfy itself that such systems meet relevant legal and regulatory requirements and initiate further investigations as it sees fit as to the effectiveness of the systems of control;
- (f) review semi-annual reports from the Manager on its activities as AIFM; a representative of the Manager will attend meetings on request; and

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- (g) review semi-annual reports from the Depository on its activities; a representative of the Depository will attend meetings on request.
- (h) Receive semi-annual reports from the Head of BlackRock's Internal Audit function on the status of audits carried out under BlackRock's annual internal audit plan that have an impact on processes and controls that are of relevance to the Company.
- (i) monitor and review the effectiveness of the Company's internal audit arrangements in the context of the Company's overall risk management systems and where there is no internal audit function, consider annually whether there is a need for an internal audit function and make a recommendation to the Board;
- (j) Review on a semi-annual basis the latest available statement by the directors of BlackRock on internal corporate governance containing a report in relation thereto from the reporting accountants (SOC 1 report).
- (k) Review on a semi-annual basis the latest available copy of BNY Mellon's SOC 1 report for review for the relevant business areas.
- (l) Review the Company's Risk Register on a regular basis and consider any changes in the Risk environment (as advised by the Manager or otherwise) as they arise or are identified.
- (m) Perform a robust assessment of the Company's emerging and principal risks and report to the Board on these, including a description of the Company's principal risks, what procedures are in place to identify emerging risks, and an explanation of how these are being managed or mitigated. (*UK Code Provision 28*). Principal risks should include, but are not necessarily limited to, those that could result in events or circumstances that might threaten the Company's business model, future performance, solvency or liquidity and reputation. In deciding which risks are principal risks the Committee will consider the potential impact and probability of the related events or circumstances, and the timescale over which they may occur.
- (n) Review and approve the statements included in the annual report in relation to internal control and the management of risk.
- (o) consider and make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration, whether fees for audit or audit-related services, and terms of engagement of the external auditor, including any engagement letter issued at the start of each audit and the scope of the audit;
- (p) oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- (q) review and monitor the external auditor's independence and objectivity and assess annually their qualifications, expertise and resources and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;

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- (r) satisfy 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;
- (s) assess on an on-going basis the External Auditor's qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditors on their own internal quality procedures;
- (t) develop and recommend to the Board the policy on the engagement of the external auditor to supply audit-related services, taking into account relevant ethical guidance regarding the provision of audit related services by the external audit firm; and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken. The policy will specify the types of audit-related work from which the external auditors are excluded. If audit-related services are provided, disclosure should be made in the annual report regarding auditor objectivity and independence. A copy of the policy is attached as Appendix 1.
- (u) monitor 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 total overall fee income of the firm, office and partner and other related requirements;
- (v) 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 review any representation letter(s) requested by the auditor before they are signed;
- (w) review an annual report from the auditors and any findings including a discussion of any major issues which arose during the audit, any accounting and audit judgements, level of errors identified during the audit and the effectiveness of the audit;
- (x) Review the effectiveness of the audit process;
- (y) review an interim review report from the auditors and any findings including a discussion of any major issues which arose during the review of the Company's interim financial statements, any accounting and audit judgements, and level of errors identified during the review;
- (z) review any representation letter(s) requested by the external auditor before they are signed by the Board;
- (aa) review the management letter and management's response to the auditor's findings and recommendations (where relevant);
- (ab) consider the risk of the withdrawal of the Company's present auditor from the market;
- (ac) Whistleblowing and Fraud
- (ad) review the Investment Manager's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and

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independent investigation of such matters and appropriate follow up action;

- (ae) review the Company's and Investment Manager's procedures for detecting fraud;
- (af) review the Company's and Investment Manager's systems and controls for the prevention of bribery and receive reports on non-compliance;

### *General*

- (ag) review any other matters referred to the Committee by the Board and perform such other functions as the Board may by resolution from time to time confer upon the Committee;
- (ah) at least once a year, review its own performance, 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; and
- (ai) give due consideration to the laws and regulations, the provisions of the Combined Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure Rules as appropriate.

## **7. REPORTING**

- 7.1 The Board shall consider at its next Board Meeting any recommendations made by the Committee which the Committee considers require the Board's immediate attention.
- 7.3 The Committee shall formally report to the Board on its proceedings at each meeting on all matters within its duties and responsibilities and shall also formally report to the Board how it has discharged its responsibilities. The report shall include:
  - (a) the significant issues that it considered in relation to the financial statements and how these were addressed;
  - (b) its assessment of the effectiveness of the external audit process (required under paragraph (i)) and its recommendation on the appointment or reappointment of the external auditor; and any other issues on which the Board has requested the Committee's opinion.
  - (c) The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed; and
  - (d) an assessment of the Company's emerging and principal risks, what procedures are in place to identify emerging risks, and an explanation of how these are being managed or mitigated. *(UK Code Provision 28)*

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7.4 The Committee shall compile a report on its activities to be included in the Company's Annual Report (UK Code Section 26; AIC Code Section 31). The report shall include:

- (a) the significant issues that the audit committee considered relating to the financial statements, and how these issues were addressed;
- (b) an explanation of how it 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 any retendering plans;
- (c) an explanation of how auditor independence and objectivity are safeguarded, if the external auditor provides audit-related services;
- (d) all other information requirements set out in the Code; and
- (e) In compiling the reports referred to above 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. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts but could provide cross-references to that information.

## **8. ADDITIONAL DUTIES OF THE CHAIRMAN**

The Chairman of the Committee is authorised and requested to attend each Annual General Meeting of the Company to deal with shareholder's questions.

## **9. THESE TERMS OF REFERENCE**

These Terms of Reference shall be published on the Company's website, or a website provided by the Investment Manager.

## **10. INTERPRETATION**

In these Terms of Reference:

"the Board" means the board of directors of the Company;

"an independent director" means a non-executive director who is determined by the Board to be independent for the purposes of the Combined Code.

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## APPENDIX I

### Revised Ethical Standard (December 2019) **AUDIT COMMITTEE PRE-APPROVAL POLICY**

#### **Statement of Principle**

The Audit Committee (the “Committee”) of the Board of Directors is required to pre-approve the audit and non-audit services performed by the independent statutory auditor or any of its affiliates (collectively, the “Audit Firm”) in order to ensure that the provision of such services do not impair the independence of the Audit Firm.

The term of any pre-approval is 12 months from the date of pre-approval, unless the Committee specifically provides for a different period. Periodically, the Committee may review and revise this Policy.

#### **Permitted Audit Related Services for Public Interest Entities**

As per paragraph 5.40 of the Revised Ethical Standard, an audit firm carrying out statutory audits of public interest entities and, where the audit firm belongs to a network, any member of such network, shall not provide to the audited entity, to its UK parent undertaking or to its worldwide controlled undertakings, services other than those set out in Exhibit I and II, subject to the approval of the audit committee after it has properly assessed threats to independence and the safeguards applied in accordance with this Ethical Standard.

#### **Pre-Approval**

This Policy establishes two different approaches to pre-approving audit and non-audit services. Proposed services may either (1) require the specific pre-approval of the Committee (“Specific Pre-Approval”) or (2) be pre-approved without consideration of specific case-by-case services (“General Pre-Approval”). Unless a type of service has received General Pre-Approval pursuant to this policy, it will require Specific Pre-Approval by the Committee.

#### **Audit Services**

The Committee has provided General Pre-approval of all annual Audit Service engagement terms and fees as listed in Exhibit I.

#### **Audit-Related Services**

. For permissible Audit-Related Services listed in Exhibit II, Specific Pre-approval should be sought from the Committee.

The Committee may approve the provision of the services referred to in Exhibit II, provided that the following requirements are complied with:

- a) they have no direct or have immaterial effect, separately or in the aggregate on the audited financial statements;
- b) the estimation of the effect on the audited financial statements is comprehensively documented and explained in the additional report to the Committee; and
- c) the principles of independence laid down in Directive 2006/43/EC are complied with by the Audit Firm.

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## **Tax Compliance and Advisory Services**

The Audit Firm does not provide any such services to the Company therefore no approvals are required.

## **Prohibited Non-Audit Services**

A list of prohibited non-audit services which are subject to outright prohibition in Regulation 80 of The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (SI 2019/177) is attached to this policy as Exhibit 1.

The Committee may approve the provision of the services referred to in point (a) (i), (a) (iv) to (a) (vii) and (f) of Exhibit 1, provided that the following requirements are complied with:

- d) they have no direct or have immaterial effect, separately or in the aggregate on the audited financial statements;
- e) the estimation of the effect on the audited financial statements is comprehensively documented and explained in the additional report to the Committee; and
- f) the principles of independence laid down in Directive 2006/43/EC are complied with by the Audit Firm.

## **Delegation**

In the intervals between the scheduled meetings of the Committee, the Committee delegates authority under this Policy to the Chairman of the Committee (the "Chairman") to pre-approve Audit and Audit-related Services. The Chairman shall report any pre-approval decisions under this Policy to the Committee at its next scheduled meeting. The Committee can modify, at its discretion, the pre-approval originally granted by the Chairman.

This modification can be to the form or the nature of services pre-approved, the level of fees approved, or both.

The Committee expects pre-approval of Audit and Audit-related services by the Chairman pursuant to this delegated authority to be the exception rather than the rule and may modify or withdraw this delegated authority at any time. The Committee does not delegate its responsibilities to pre-approve services performed by the Audit Firm to management.

## **EXHIBIT I**

### **Audit Services**

- a) Annual audit of financial statements (including quarterly or semi-annual reviews, if applicable) and other procedures required to be performed to be able to form an opinion on the PIEs financial statements.
- b) Consultation by management as to accounting or disclosure treatment of transactions or events and/or the potential impact of final or proposed rules, standards, or interpretations by regulators or standard setting bodies.

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## EXHIBIT II

### Audit-Related Services

#### **Services required by law or regulation and exempt from the non-audit services cap**

- Reporting required by a competent authority or regulator under law or regulation for example;
  - Reporting to a regulator on client assets;
  - in relation to entities regulated under the Financial Services and Markets Act 2000 (FSMA), reports under s166 and s340 of FSMA;
  - Reporting to a regulator on regulatory financial statements;
  - Reporting on a Solvency and Financial Condition Report under Solvency II.
- In the case of a controlled undertaking incorporated and based in a third country, reporting required by law or regulation in that jurisdiction where the auditor is permitted to undertake that *engagement*;
- Reporting on internal financial controls when required by law or regulation;
- Reporting on the iXBRL tagging of financial statements in accordance with the European Single Electronic Format for annual financial reports;
- Reports, required by or supplied to competent authorities / regulators supervising the *audited entity*, where the authority / regulator has either specified the auditor to provide the service or identified to the entity that the auditor would be an appropriate choice for service provider;
- Services which support the entity in fulfilling an obligation required by UK law or regulation, including listing requirements where: the provision of such services is time critical; the subject matter of the engagement is price sensitive; and an it is probably that an objective, reasonable and informed third party would conclude that the understanding of the entity obtained by the auditor for the audit of the financial statements is relevant to the service, and where the nature of the service would not compromise independence;

#### **Services subject to the non-audit services cap**

- Reviews of interim financial information; and providing verification of interim profits not otherwise required by law or regulation;
- Where not otherwise required by law or regulation, non-audit and additional services, as defined in this Ethical Standard provided as auditor of the entity, or as *reporting accountant*, in relation to information of the *audited entity* for which it is probable that an objective, reasonable and informed third party would conclude that the understanding of the entity obtained by the auditor is relevant to the service, and where the nature of the service would not compromise independence;
- Extended audit or assurance work that is authorised by those charged with governance performed on financial or performance information and/or financial or operational controls, in an *entity relevant to an engagement* or a third-party service provider, where this work is closely linked with the audit work;
- Additional assurance work or agreed upon procedures, authorised by those charged with governance performed on material included within or referenced from the annual report of an *entity relevant to an engagement*;
- Reporting on government grants;
- Reporting on covenant or loan agreements, which require independent verification, and other reporting to third parties with whom the *entity relevant to an engagement* has a business relationship in accordance with Appendix C of this Ethical Standard;

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- Services which have been the subject of an application to the Competent Authority in accordance with Regulation 79 of The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (SI 2019/177);
- Generic subscriptions providing factual updates of changes to applicable law, regulation or accounting and auditing standards.

**Where such services are provided, they shall not include any elements of those services subject to outright prohibition in Regulation 80 of The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (SI 2019/177) (as set out in EXHIBIT III). The prohibitions in this Regulation have been amended to require an extended cooling in period for services linked to an audit entity's internal audit function. No other non-audit or additional services shall be provided to the *audited entity*, its UK parent undertaking and its worldwide controlled undertakings by the *audit firm* or any member of the firm's network.**

## Exhibit III

### Prohibited Non-Audit Services for Public Interest Entities

An audit firm carrying out the statutory audit of a public interest entity, or any member of the network to which the audit firm belongs, shall not directly or indirectly provide to the audited entity, to its UK or EU parent undertaking or to its controlled undertakings any prohibited non-audit services in:

- a) the period between the beginning of the period audited and the issuing of the audit report; and
- b) the financial year (or period if longer than one year) immediately preceding the period referred to in point (a) in relation to the services listed in points (e) and (h) of the second subparagraph.

For these purposes, prohibited non-audit services shall mean:

- (a) tax services relating to:
  - (i) preparation of tax forms;
  - (ii) payroll tax;
  - (iii) customs duties;
  - (iv) identification of public subsidies and tax incentives unless support from the audit firm in respect of such services is required by law;
  - (v) support regarding tax inspections by tax authorities unless support from the audit firm in respect of such inspections is required by law;
  - (vi) calculation of direct and indirect tax and deferred tax;
  - (vii) provision of tax advice;
- (b) services that involve playing any part in the management or decision making of the audited entity;
- (c) bookkeeping and preparing accounting records and financial statements;
- (d) payroll services;
- (e) designing and implementing internal control or risk management procedures related to the preparation and/or

- control of financial information or designing and implementing financial information technology systems;
- (f) valuation services, including valuations performed in connection with actuarial services or litigation support services;
- (g) legal services, with respect to:
  - (i) the provision of general counsel;
  - (ii) negotiating on behalf of the *audited entity*; and
  - (iii) acting in an advocacy role in the resolution of litigation;
- (h) services related to the audited entity's internal audit function;
- (i) services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity;
- (j) promoting, dealing in, or underwriting shares in the audited entity;
- (k) human resources services, with respect to:
  - (i) management in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the *statutory audit*, where such services involve:
    - searching for or seeking out candidates for such position; or
    - undertaking reference checks of candidates for such positions;
  - (ii) structuring the organisation design; and
  - (iii) cost control.