

# HICL Audit Committee – Terms of Reference

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**HICL INFRASTRUCTURE PLC**  
**(the “Company”)**

**Audit Committee**

**CHAIR:** R Akushie

**MEMBERS:** All Directors excluding the Chair of the Board

**IN ATTENDANCE:** The Company Secretary

The Investment Manager (normally the Portfolio Director who is also the Senior Accounting Officer and other senior members of the Investment Manager’s staff)

The Audit Committee has discretion as to whether or not they meet the External Auditors in private.

Representatives of the External Auditors shall attend meetings at the invitation of the Committee.

Board members who are not members of the Committee shall attend if invited by the Committee.

**MEMBERSHIP AND QUORUM:**

The Committee shall be appointed by the Board in consultation with the Audit Committee Chair and consist of at least three members from amongst the independent Non-Executive Directors of the Company.

The Chair of the Committee shall be appointed by the Board and shall be an independent Non-Executive Director (and shall not at any time also be the Chair of the Board).

The Board will ensure that at least one member of the Committee has recent and relevant financial experience.

A quorum shall be two members of the Committee.

**CONSTITUTION AND PURPOSE:**

The Committee does not hold any executive authority save as expressed herein. The Committee shall review, consider and discuss issues relating to the engagement of an External Auditor, an Internal Auditor, compliance with company law, Accounting Standards and Financial Conduct Authority regulations, publication of interim and annual results, publication of any other financial statements embodied within circulars or company announcements, financial internal control procedures and internal audit procedures. The Chair of the Committee shall report to the Company’s Board (the “Board”) on any relevant issue that, in the opinion of the Committee, should be brought to the attention of the Board members.

In accordance with AIC Code of Corporate Governance the Committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board. This requirement could be met by including the information on the Company’s website.

**AUTHORITY:**

The Committee is authorised by the Board to:

- a. Investigate any activity within its terms of reference;
- b. Seek any information that it requires from any party;

- c. Obtain outside legal or independent professional advice at the Company's expense and such advisers may attend meetings as necessary; and
- d. To address, investigate and or report upon any financial or other operational, fraud or constitutional issues that may be brought to the attention of any Committee Member.

**RESPONSIBILITY:** The responsibilities of the Committee shall be:

External Audit

- a. To consider and make recommendations to the Board concerning the appointment of the External Auditor and assess the External Auditor's independence, effectiveness and performance, in accordance with the UK Corporate Governance Code requirements, seeking information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those regarding the rotation of audit partners and staff at appropriate intervals;
- b. To oversee the process for selecting the External Auditor and make appropriate recommendations through the Board for the shareholders to consider at the AGM;
- c. To review annually the terms of the External Auditor's engagement letter and their proposed remuneration taking into account any changes to the Group's structure and operations in the period. To make recommendations to the Board regarding the annual external audit fee;
- d. To discuss with the External Auditor, before the audit commences, the nature and scope of the audit (or its review of the interim financial statements) and to review the External Auditor's Audit Plan, quality control procedures and steps taken by the External Auditor to respond to changes in regulatory and other requirements;
- e. To review, where applicable, the External Auditor's management letter and management's response;
- f. To consider communications from the External Auditors of audit matters to those charged with governance as required by Auditing Standards (IAS 260);
- g. To approve other audit related and non-audit services prior to the engagement of the External Auditor in line with HICL's Non-Audit Services policy (see Appendix 1 to this Terms of Reference document);
- h. To receive and review, every six months, a summary of the External Auditor fees, both audit and non-audit, charged to HICL group companies and its investments to ensure inter alia the fee cap within HICL's Non-Audit Services policy (see Appendix 1) is not breached; and
- i. To put out the audit services to tender at least once in every 10 years, to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent External Auditor with those of other audit firms. The maximum term, in line with UK regulations for EU Public Interest Entities, is 20 years. The Financial Reporting Council recommends that such tender be considered on the same review cycle as for the incumbent External Audit partner.

Directors' Valuation

- a. To receive from the Investment Manager a valuation of the Group's investment portfolio based on the agreed valuation methodology. Current frequency is twice a year;

- b. To engage a third party valuation validation expert (“Valuation Expert”) on behalf of the Company who will review the draft valuation prepared by the Investment Manager and give the Directors a private opinion on the valuation;
- c. To recommend to the Board the valuation of the Group’s investment portfolio based on the work of the Investment Manager and the opinion of the third party Valuation Expert;
- d. To review annually the terms of the Valuation Expert’s engagement letter and their proposed remuneration taking into account any changes to the Group’s structure and investments in the period. To make recommendations to the Board regarding the annual fee;
- e. To discuss with the Valuation Expert before the valuation commences, the key economic assumptions and the market comparables re discount rate, and any specific outputs required; and
- f. To review the Valuation Expert’s opinion letter and management’s response.

#### Fraud

- a. To review the Company’s procedures for the prevention, detection and reporting of fraud;
- b. To review the Company’s procedures set out in the HICL Policies and Controls Manuals Part A and Part B for handling allegations from whistleblowers. Such procedures should permit individuals, in confidence, to raise concerns about possible improprieties associated with the HICL Group, in matters of financial reporting or other matters, with the objective of ensuring that arrangements are in place to follow up the matters raised; and
- c. Further to these procedures, to review and investigate allegations from whistleblowers to determine if further action is necessary and, if so, determine the necessary next steps.

#### Financial Statements

- a. To review, and challenge where necessary, the actions and judgements of the Investment Manager and any other relevant entities, in relation to the interim and annual financial statements before submission to the Board, paying particular attention to:
  - i. When taken as a whole, the financial statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company’s performance, business model and strategy;
  - ii. Critical accounting policies and practices and any changes in them, as they relate to the results of the Company, Subsidiaries, Joint Ventures and Associates;
  - iii. Decisions requiring a major element of judgement including the impact of adopting any acceptable alternative accounting treatment;
  - iv. The extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
  - v. The clarity of disclosures, including the use of Alternative Performance Measures;
  - vi. Significant adjustments resulting from the audit;
  - vii. The External Auditor’s statement of unadjusted audit differences and management’s explanation as to why adjustments have not been processed;

- viii. The going concern assumption and note those matters that have informed the Board's assessment of whether the Company is a going concern;
  - ix. The viability statement and the accompanying commentary and reviewing projections and sensitivities prepared by the Investment Manager to support the statement;
  - x. Compliance with Accounting Standards;
  - xi. Compliance with the Listing Rules, Financial Conduct Authority ('FCA') and other legal requirements; and
  - xii. Compliance with the AIC Code of Corporate Governance.
- b. At the end of an audit cycle, or earlier if appropriate, to review the effectiveness of the external audit process and to report the Committee's conclusions to the Board.

#### Internal Controls and Policies

- a. In relation to accounting records, the valuation process and accounts preparation, the Committee will review the Company's statement on internal control systems prior to endorsement by the Board and consider whether or not there is a requirement for an internal audit process.
- b. Make recommendations to the Board having taken advice from the Investment Manager, on material changes to the Company's Tax Policy

#### **REPORTING PROCEDURES:**

The Secretary shall circulate the minutes of the meetings to all members of the Board. The Chair of the Committee shall attend the Board meeting at which the accounts are approved and report the key issues which, in the opinion of the Committee, should be brought to the attention of the Board in relation to the financial statements, other statutory disclosures and internal control weaknesses.

The Committee members shall conduct an annual review of their work and these terms of reference and make recommendations to the Board for changes. The Committee shall make its terms of references available to shareholders on request and ensure that they are published on the Company's website.

A separate section of the annual report should describe how the Audit Committee discharged its responsibilities, including:

- a. the significant issues it considered in relation to the financial statements, and how these 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; and
- c. If the External Auditor provides non-audit services, an explanation of its approach to the approval of any non-audit services provided by the External Auditor, and how the Audit Committee considered any impact of the External Auditor's objectivity and independence arising from the provision of such services.

The Audit Committee shall prepare and include in the Audit Committee report included within the annual report a statement of compliance with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for each financial year. Where no competitive tender process for auditor appointments has been undertaken in relation to five consecutive financial years, the Audit Committee will indicate the financial year in

which the Company next proposes to complete a competitive tender process and the reasons that it is in the best interests of the Company's members.

The Chair shall attend the AGM and shall answer questions, through the Chair of the Board, on the Committee's activities and its responsibilities.

In the event of a material disagreement between the Committee and the Board, the Committee should have the right to report on the issue to shareholders in the annual report.

Amendments may be made to the duties of the Committee by the Board from time to time.

**FREQUENCY OF MEETINGS:**

Meetings shall be held not less than three times a year, and where appropriate should coincide with key dates in the Company's financial reporting cycle, i.e. prior to the Board's review of the interim results announcement and the announcement of annual results.

The External Auditors may request a meeting at any time if they consider that one is necessary.

**OTHER:**

The Committee shall, 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.

Updated: August 2022

## **HICL Audit Committee – Terms of Reference: Appendix 1**

### **HICL Audit Committee – Non-Audit Services policy**

#### **Introduction**

The following policy applies to the engagement of HICL’s External Auditor to supply non-audit services to HICL and its subsidiaries (the “HICL Group”). The policy also applies to the engagement of companies deemed to be significant affiliates (Affinity Water) or affiliates, as defined by the External Auditor. Its objective is to mitigate any risks that threaten the External Auditor’s independence and objectivity, arising through the provision of non-audit services.

This policy is in line with the recommendations set out in the FRC’s Guidance on Audit Committees (2016) and the requirements of the FRC’s Revised Ethical Standard (2019). In line with these recommendations and requirements, an external audit firm is only appointed to perform a service when doing so would be consistent with both the requirements and overarching principles of the Ethical Standard, and when its skills and experience make it the most suitable supplier.

In addition, the Ethical Standard requires an assessment of whether it is probable that an objective, reasonable and informed investor, shareholder or other public interest stakeholder would conclude independence is not compromised.

The Audit Committee will review the policy on an annual basis.

#### **HICL Group**

#### **Approval**

Audit Committee approval is not required for those services categorised as ‘Permitted audit and audit-related services’ where the fee is less than £20,000. These will be monitored and approved by the Investment Manager’s HICL Investment Committee and reported after the event to the Audit Committee.

For all services categorised as ‘Permitted non-audit services’ and ‘Permitted audit and audit-related services’ where the fee is above £20,000, Audit Committee approval must be obtained on a case by case basis, prior to engaging the External Auditor.

In accordance with the FRC’s Guidance on Audit Committees (2016), when reviewing requests for ‘Permitted non-audit services’, the Audit Committee will assess:

- Whether the provision of such services impairs the External Auditor’s independence or objectivity and any safeguards in place to eliminate or reduce such threats;
- The nature of the non-audit services;
- Whether the skills and experience make the External Auditor the most suitable supplier of the non-audit service;
- The fee to be incurred for non-audit services, both for individual non-audit services and in aggregate, relative to the total audit fee; and
- The criteria which govern the compensation of the individuals performing the audit.

#### **Permitted audit and audit-related services**

Audit-related services are the services listed below, excluding the statutory audit of HICL and its subsidiaries, that are largely carried out by members of the audit engagement team, and where the work involved is closely related to the work performed in the audit and the threats to External Auditor independence are clearly insignificant. Such services are still subject to the 70% cap and the approval requirements set out in this policy.

- Statutory audit of HICL’s financial statements;
- Statutory audits of the financial statements of subsidiary companies;
- Review of the HICL’s half-year report and interim financial statements; and

- Other permitted audit-related services.

### **Permitted non-audit services**

The following list describes the nature of all services that can be provided by the External Auditor if approved by the Audit Committee – services not on the list cannot be provided. Services marked with an \* are still subject to the 70% cap.

Audit Committee approval must be obtained before engaging the External Auditors to provide any of the following Permitted non-audit services;

- Reporting required by a competent authority or regulator under UK 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.
  - .
- 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 required 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
  - It is probable 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.
- 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 the 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 the audited entity 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.\*
- Reporting on government grants.\*
- Reporting on covenant or loan agreements which require independent verification and other reporting to third parties with whom the audited entity has a business relationship in accordance with Appendix C of the Ethical Standard.\*
- Services which have been the subject of an application to the Competent Authority.\*

- Generic subscriptions providing factual updates of changes to applicable law, regulation or accounting and auditing standards.\*
- The Group will not engage KPMG for services that are not closely related to their role as HICL's External Auditor. This includes investment-related services such as due diligence.

## **Fees**

Any arrangement with the External Auditor that includes contingent fee arrangements is not permitted.

In addition, the total fees for non-audit services provided by the External Auditor to the HICL Group shall be limited to no more than 70% of the average of the statutory audit fee for the Company and of its controlled undertakings paid to the External Auditor in the last three consecutive financial years commencing on 1 April 2017.

## **Confirmation of independence**

The Audit Committee will seek annually, from the External Auditor, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those regarding the rotation of audit partners and staff.

Policy for Significant Affiliates and Affiliates

## **Approval**

Audit Committee approval is not required for those services categorised as 'Permitted non-audit services' where the fee is less than £100,000. These will be reported annually to the Audit Committee.

For all services categorised as 'Permitted non-audit services' where the fee is above £100,000, Audit Committee approval must be obtained on a case-by-case basis, prior to engaging the External Auditor. These fees are not subject to the 70% cap. However, the HICL Audit Committee will not permit the total amount of fees payable to KPMG for audit and non-audit services to be more than three times the HICL audit fee in any one year.

All non-audit services are classified as permitted unless they meet the following criteria:

KPMG are not able to provide the following services, as defined in the FRC's Ethical Standard (issued December 2019), to a significant affiliate:

- Internal audit services;
- Valuation services;
- Actuarial Valuation services; and,
- Prepare current or deferred tax computations.

KPMG are not able to provide the following services, as defined in the FRC's Ethical Standard (issued December 2019), to a significant affiliate or an affiliate:

- Information Technology Services;
- Provide tax services where the service involves the firm taking a management role;
- Litigation support services;
- Provision of General Counsel services;
- Recruitment or remuneration services;
- Corporate Finance services;
- Transaction related services; and,
- Accounting services.