

The Scottish Investment Trust PLC

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE MEMBERSHIP AND ATTENDANCE

The committee shall be appointed by the board, on the recommendation of the nomination committee, and shall comprise a chairman who is not the chairman of the company and at least two other members. All members of the committee shall be directors independent of the management. At least one member of the committee should have recent relevant financial knowledge. Care should be taken to minimise the risk of any conflict of interest and potential conflicts should be disclosed. The board shall appoint the committee chairman. In the absence of the committee chairman and/or an appointed deputy, the remaining members present shall elect one of their number present to chair the meeting. The committee may ask the chairman, other members of the board and any relevant senior management to attend meetings either regularly or by invitation, but the invitees have no right of attendance. The committee may ask a representative of the external auditors to attend all meetings. The committee should, at the request of the external auditors, have a meeting without management being present.

SECRETARY

The company secretary or his/her nominee shall act as the secretary of the committee.

QUORUM

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

FREQUENCY OF MEETINGS

The Committee shall meet not less than three times per year and at such other times as the chairman of the committee shall require. Meetings will be arranged to tie in with key dates within the financial reporting and audit cycle. Meetings can be requested by the external auditors if they consider one is necessary.

NOTICE OF MEETINGS

Meetings of the committee shall be convened by the secretary of the committee at the request of any member thereof.

MINUTES OF MEETINGS

The secretary shall minute the proceedings and resolutions of all meetings of the committee, including recording the names of those present and in attendance. The secretary should ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. Minutes of committee meetings shall be circulated promptly to all members of the committee and to the chairman and all members of the board.

ANNUAL GENERAL MEETING

The chairman of the committee shall attend the annual general meeting prepared to respond to any shareholder questions on the committee's activities.

DUTIES:

Internal Control and Risk Assessment

The audit committee shall review the adequacy and effectiveness of the company's internal financial controls and the company's internal control and risk management systems. The committee shall also review and approve internal control and risk management statements in the annual report and accounts.

INTERNAL AUDIT

The committee shall consider annually whether there is a need for an internal audit function and make a recommendation to the board and the reasons for the absence of such a function should be explained in the relevant section of the annual report.

EXTERNAL AUDIT

The audit committee is responsible for overseeing the company's relations with the external auditor.

- The committee or its chairman shall meet with the external auditors at least twice each year, once at the planning stage, where the scope of the audit will be considered, and once post audit at the reporting stage, and shall ensure that any auditor's management letters and management's responses are reviewed.
 - The committee shall consider and make recommendations to the board regarding the remuneration to be paid to the external auditor for both audit and non-audit services. The committee should satisfy itself that the level of fees is appropriate for an effective, high quality audit to be conducted.
 - The committee shall review and agree the engagement letter issued by the external auditor at the start of each audit.
 - The committee shall annually assess the qualification, expertise and resources, and the independence of the external auditors.
 - The committee shall recommend on whether to propose to shareholders the appointment or reappointment of the company's external auditors, and shall ensure that key partners within the appointed firm are rotated from time to time.
 - The committee shall assess the independence and objectivity of the external auditor annually, such assessment will include consideration of all relationships between the company and the audit firm and any safeguards established by the external auditor.
 - FTSE 350 companies should put the audit services contract out to tender at least once every ten years, to enable the audit committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms.
- Financial Statements The committee shall keep under review the consistency of accounting policies both on a year to year basis and across the company/group. The committee shall review and challenge where necessary the company's financial statements taking into account:
- decisions requiring a major element of judgement;
 - the extent to which the financial statements are affected by any unusual transactions;
 - the clarity of disclosures;
 - significant adjustments resulting from the audit;
 - the going concern assumption;

- compliance with accounting standards;
- compliance with stock exchange and other legal requirements; and
- shall review the company's statement on internal control systems prior to endorsement by the board and review the policies and process for identifying and assessing business risks and the management of those risks by the company.

The committee shall review the annual financial statements of the pension funds where not reviewed by the board as a whole.

REPORTING RESPONSIBILITIES

The committee or its chairman shall meet formally with the board of directors at least once a year to discuss such matters as the annual report and the relationship with the external auditors. In the light of its other duties, the committee shall make whatever recommendations to the board it deems appropriate and shall compile a report to shareholders to be included in the company's annual report and accounts.

OTHER MATTERS

The committee shall give due consideration to the requirements of the UK Listing Authority's Listing Rules. The committee shall review the company's procedures for handling allegations from whistleblowers. The committee shall oversee any investigation of activities which are within its terms of reference and act as a court of the last resort. The committee should, on a regular basis, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness.

AUTHORITY

The committee is authorised:

- to seek any information it requires from any employee of the company in order to perform its duties;
- to obtain, at the company's expense, independent legal, accounting or other professional advice on any matters it believes it necessary to do so; and
- to publish in the company's annual report, details of any issues that cannot be resolved between the committee and the board.