

**Invesco Perpetual Enhanced Income Limited  
(‘the Company’)**

**Terms of Reference of the Audit Committee  
(‘the Committee’)**

**November 2016**

**1. Objective**

The Committee will support the Board in fulfilling its oversight responsibilities in respect of the financial reporting process, the system of internal control and risk management systems (including review of the effectiveness of the Manager and Company Secretary’s internal control and risk management systems), the external and internal audit processes and the Company’s process for monitoring compliance with laws and regulations and its own code of business conduct.

In performing its duties, the Committee will maintain effective working relationships with the Board of Directors, the Manager, Company Secretary, the Manager and Company Secretary’s Compliance and Internal Audit functions and the Company’s external auditor and the depositary. To perform his role effectively, each Committee member will obtain an understanding of the detailed responsibilities of Committee membership as well as the Company’s business, operations and risks.

**2. Authority**

- 2.1 The Board authorises the Committee, within the scope of its responsibilities to seek any information it requires from any employee of the Manager and Company Secretary as well as any external parties including external auditor, broker, registrar, lawyer, investment advisers, custodian, depositary and other third party suppliers.
- 2.2 The Committee is authorised to obtain, at the Company’s expense, outside legal or other professional advice on any matters within its terms of reference, up to a level of £10,000 on any subject or issue without Board approval.
- 2.3 The Committee is authorised to call any employee of the Manager or Company Secretary to be questioned at a meeting of the Committee as and when required. The Committee may invite such other persons to attend its meetings, as it deems necessary.

**3. Organisation**

**Membership**

- 3.1 The Committee should be appointed by the Board and its members shall comprise at least three independent non-executive Directors of which at least one should have recent and relevant financial experience and the Audit Committee as a whole shall have competence relevant to the sector in which the Company operates.
- 3.2 Each member should bring an independent mind-set to the role and be capable of making a valuable contribution to the Committee.

- 3.3 The Chairman of the Board, on the recommendation of the Board, can be a member of, but not chair, the Committee, provided he was considered independent on appointment.
- 3.4 The membership presently comprises: Mr Peter Yates– Chairman, Mr Michael Lombardi and Mr Clive Spears. The Board will review the membership of the Committee annually.
- 3.5 The Chairman of the Committee, on the recommendation of the Board will be appointed by the Board from time to time. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members shall elect one of themselves to Chair the meeting.
- 3.6 A quorum for any meeting will 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.
- 3.7 The quorum for the transaction of business must be located outside of the UK, although other members/attendees of the Committee may attend by means of two-way electronic communication such as telephone or video conferencing.
- 3.8 So long as members continue to be independent, the Committee shall not have a policy of tenure.
- 3.9 The Company Secretary or their nominee shall act as the Secretary of the Committee.
- 3.10 The Committee should have access to the services of the Company Secretary on all Committee matters including:
  - a) assisting the Chairman in planning the Committee’s work;
  - b) drawing up Committee meeting agendas;
  - c) maintenance of minutes;
  - d) drafting of material about its activities for the annual financial report;
  - e) collection and distribution of information; and
  - f) necessary practical support.

### **Administration of Meetings**

- 3.11 If a regular member is unable to act due to absence, illness or any other cause the Chairman of the Committee may appoint another Director of the Company to serve as an alternate member.
- 3.12 The Committee may invite such other persons to attend its meetings, as it deems necessary.
- 3.13 Representatives of the external auditor, depositary and the Manager and Company Secretary’s compliance and internal audit functions will be invited to make presentations to the Committee as appropriate.
- 3.14 The Committee shall meet at least twice a year at appropriate times in the reporting and audit cycle and otherwise as required.
- 3.15 Meetings of the Committee shall be summoned by the Company Secretary of the Company at the request of any of its members or at the request of external or the Manager’s internal auditor if they consider it necessary. 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 and any other person required to attend, no later than five working days before the meeting.

- 3.16 The Company Secretary shall ascertain the existence of any conflicts of interest and minute them accordingly.
- 3.17 The Company Secretary should ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.
- 3.18 The Company Secretary shall minute the proceedings and resolutions of all Committee meetings, including recording the names of those present and in attendance. Minutes of Committee meetings shall be circulated to all Directors within seven days.
- 3.19 The Chairman of the Committee shall attend the Annual General Meeting and be prepared to respond to shareholder questions on the Committee's activities.

#### **4. Roles and Responsibilities**

##### **Internal Controls and Risk Management Systems**

*The Committee will:*

- 4.1 Monitor and challenge, where necessary, the adequacy and effectiveness of the Manager and Company Secretary's internal controls and risk management systems and those of other service providers through review of their service organisation control reports where available.
- 4.2 Review the appropriate statements to be included in the annual financial report concerning internal controls and risk management.
- 4.3 Consider how the Manager and Company Secretary ensure the security of computer systems and applications, and maintain contingency plans for processing financial information in the event of a systems breakdown.
- 4.4 Annually review the written Terms of Reference of the Committee.
- 4.5 Regularly review the Company's Risk Control Summary and related Risk Control Matrix, ensuring that all significant risks are identified, the ratings applied are appropriate and that the most significant risks to the Company post mitigation are aligned to the principal risks and uncertainties published in the annual financial report. Also, ensuring that these risks are appropriately considered in the drafting of the viability statement in the annual financial report.
- 4.6 Review the Manager and Company Secretary's arrangements for their 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 independent investigation of such matters and appropriate follow-up action.

## **Financial Reporting**

*The Committee shall:*

- 4.7 Monitor the integrity of the financial statements and review and challenge, where necessary, the actions and significant judgements of the Manager and Company Secretary, in relation to the Company's financial statements, including its annual and half-yearly reports, results announcements and any other formal announcement relating to its financial performance.
- 4.8 In carrying out 4.7 above, particular attention shall be paid to:
  - a) critical accounting policies and practices and any changes in them;
  - b) decisions requiring a significant element of judgement;
  - c) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
  - d) the clarity of disclosures;
  - e) the going concern and viability assumptions;
  - f) compliance with accounting standards; and
  - g) compliance with stock exchange and other legal requirements.
- 4.9 Meet with the Manager, Company Secretary and the external auditor to review the financial statements and the results of the audit.

## **Internal Audit**

*The Committee shall:*

- 4.10 Review the Manager's internal audit programme so far as it relates, directly or indirectly, to the Company.
- 4.11 Monitor and assess the role and effectiveness of the Manager's internal audit function in the overall context of the Company's risk management system.
- 4.12 Be satisfied that the Manager and Company Secretary's internal audit function is adequately resourced and has appropriate standing within the Invesco Group.
- 4.13 Receive confirmation that the internal auditor has direct access to the Board of the Company.
- 4.14 Receive a report on the results of the internal auditor's work on a periodic basis.
- 4.15 Gain an understanding of whether internal control recommendations made by the internal audit function and the external auditor have been received and discussed on a timely basis and then implemented by the Manager, where appropriate.

## **External Audit**

*The Committee shall:*

- 4.16 Have primary responsibility for making 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 also give due consideration to the Competition and Markets Authority's ruling that 'FTSE 350 companies' should put the external audit act out to tender at least every ten years and periodically consider whether it would be beneficial to put the Company's audit out to tender on a voluntary basis.

- 4.17 Approve the terms of engagement and the remuneration to be paid to the external auditor in respect of audit services provided.
- 4.18 Assess the qualification, expertise and resources, and the effectiveness, objectivity and independence of the external auditor annually, taking into account relevant professional and regulatory requirements, the external Auditor's policy on Audit Manager and Audit Partner rotation and to also consider whether it would be beneficial to put the Company's external Audit out to tender at least once every ten years.
- 4.19 Review the nature and scope of the audit before the audit commences.
- 4.20 Review and approve the Director's letter of representation.
- 4.21 Review the findings of the audit with the external auditor, including:
  - a) any major issues that arose during the audit;
  - b) key accounting and audit judgements; and
  - c) levels of errors identified during the audit.
- 4.22 Assess, at the end of the audit cycle, the effectiveness of the audit process by:
  - a) reviewing whether the external auditor has met the agreed audit plan;
  - b) considering the robustness and perceptiveness of the external auditor in their handling of key accounting and audit judgements identified; and
  - c) obtaining feedback about the conduct of the audit from key people involved.
- 4.23 Develop and recommend to the Board the Company's policy on non-audit services taking into account relevant ethical guidance regarding the provision of non-audit services by an external audit firm; and 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.
- 4.24 Consider the risk of the withdrawal of the Company's external auditor from the market in risk evaluation and planning.
- 4.25 Meet the external auditor, without management, to discuss matters relating to the Committee's remit and any issues arising from the audit.
- 4.26 If the external auditor resigns, investigate the issues giving rise to such resignation and consider whether any action is required.

### **Reporting Responsibilities**

- 4.27 The Audit Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. The Audit Committee is also required to report to the Board annually on how it has discharged its responsibilities during the year. The report should include:
  - a) information on any significant issues that the Committee considered in relation to the financial statements and how they were addressed;
  - b) an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor and information on the length of

- c) tenure of the current audit firm and when a tender was last conducted;  
if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded.

4.28 Where requested by the board, the audit committee should provide advice on whether the annual report and accounts, taken as a whole, 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 shall:*

4.29 Make whatever recommendations to the Board as it deems appropriate on any area within its remit where action or improvement is needed.

4.30 Compile a report to shareholders on its activities to be disclosed in the annual financial report; including a description of any significant issues – in relation to the financial statements – that the Committee considered during the year, and how they were addressed.

### **Other Responsibilities**

*The Committee shall:*

4.31 Have access to sufficient resources in order to carry out its duties.

4.32 Give due consideration to laws and regulations, the provisions of the Association of Investment Companies' Code of Corporate Governance and the requirements of Jersey Law, JFSC rules, the UK Listing Authority's Listing, Prospectus and Disclosure Guidance and Transparency Rules as appropriate.

4.33 Perform other oversight functions as requested by the Board (e.g. consider the way in which the management fee has been calculated and charged).

4.34 Committee members should keep themselves adequately informed on matters relevant to their duties. New members should receive an induction briefing.