

Financial Statements / Report of the Audit Committee

Role of the Audit Committee

The Audit Committee's main functions are:

- To monitor the internal financial control and risk management systems on which the Company is reliant.
- To consider whether there is a need for the Company to have its own internal audit function.
- To monitor the integrity of the half year and annual financial statements of the Company by reviewing and challenging, where necessary, the actions and judgements of the Investment Manager and the Administrator.
- To review the proposed audit programme and the subsequent Audit Report of the external Auditor and to assess the effectiveness and quality of the audit process, the nature of the non-audit work and the levels of fees paid in respect of both audit and non-audit work, in compliance with the Company's Non Audit Services Policy.
- To make recommendations to the Board in relation to the appointment, re-appointment or removal of the Auditor, and to negotiate their remuneration and terms of engagement on audit and non-audit work.
- To monitor and review annually the external Auditor's independence, objectivity, effectiveness, resources and qualifications.

Composition of the Audit Committee

The Audit Committee comprises the whole Board, being independent Directors. Calum Thomson, a qualified chartered accountant with over 25 years' experience, has chaired the Audit Committee throughout the year. All members of the Committee have recent and relevant financial experience, and the Committee as a whole has competence relevant to the investment trust sector. The Audit Committee operates within defined terms of reference, which are available on the Company's website.

Activities During the Year:

- Review of the Half Year Report for the period to 31 March 2021, recommending its approval to the Board;
- Consideration of the external Auditor's plan for the audit of the year end financial statements;
- Review of the Company's internal controls and risk management system, including an annual assessment of emerging and principal risks facing the Company;
- Review of the service levels provided by the Company's Custodian and Depository;
- Review of the controls reports issued by the Company's outsourced service providers, including those issued by the Company's Administrator, Depository, Custodian and Investment Manager;
- Review of the year end financial statements, including a review to ensure that the financial statements issued by the Company are considered fair, balanced and understandable, and discussion of the findings of the external audit with KPMG. Several sections of the Annual Accounts are not subject to formal statutory audit, including the Strategic Report and Investment Manager's Review; the checking process for the financial information in these sections was considered by the Audit Committee, and by the Auditor.
- Assessment and recommendation to the Board on whether it was appropriate to prepare the Company's financial statements on a going concern basis. This review included challenging the assumptions on viability of the Company and reviewing stress tests focused on its ability to continue to meet its viability. The Board's conclusions are set out in the Report of the Directors on page 61.
- Consideration of a statement by the Directors on the long-term viability of the Company. That statement can be found on pages 61 and 62.

- Recommendation of a final dividend for the year ended 30 September 2021 and an interim dividend for the period to 31 March 2021;
- Review of special dividends received in the year to determine their allocation to the revenue or capital account in the Statement of Comprehensive Income;
- Review of the Investment Manager's Business Continuity Plan;
- Review of the Committee's terms of reference;

Significant Areas of Focus

The Committee considers in detail the annual and interim statements and its key focus in its work on the Annual Report and Accounts is that the financial statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Committee also carefully considers the most significant issues, both operational and financial, likely to impact on the Company's financial statements.

The key area of focus for the Committee was the valuation of the investment portfolio: 99.1% of the portfolio at the year end can be verified against daily market prices and observable price movements. The remaining 0.9% uses methodologies based on observable inputs.

The following other areas of focus were considered throughout the year and as part of the annual audit:

- The possibility of management override of controls, because individuals have access to the Company's assets and accounting records in order to fulfil their roles. The Board, through the Audit Committee, is responsible for ensuring that suitable internal control systems to prevent and detect fraud and error are designed and implemented by the third-party service providers to the Company and is also responsible for reviewing the effectiveness of such controls.
- Revenue recognition: Dividends are accounted for on an ex-dividend basis and occasionally the Company receives special dividends. All revenues are reconciled and there is separation of duties between the Investment Manager and Administrator.
- Management fees: The Investment Manager's fee is the largest expense item. The Administrator ensures that each fee payment is independently verified and the amounts paid are further verified as part of the audit process.
- Debt covenants: Compliance with debt covenants is verified by the Administrator at each month end and certified to lenders and notified to the Directors.
- Going Concern and Viability: During the year and as part of the year-end review the Committee considered the Company's ability to continue to operate and its future viability. Stress tests were carried out, examining the effects of substantial falls in asset value and revenues. Throughout the year, the Audit Committee has also dedicated time to considering the likely economic effects and the impact on the Company of the ongoing COVID-19 pandemic.
- Compliance with the Companies Act and Listing Rules: Reports on compliance are received and reviewed at each quarterly Board meeting.
- Investment Trust Status: A report on compliance with the requirements to maintain investment trust status is received and reviewed at each Board meeting. As part of the year-end process the Audit Committee reviews the requirements to retain investment trust status, and in particular the minimum dividend distribution which must be made with respect to the year under review.



Significant Areas of Focus continued

A further significant risk control is to ensure that the investment portfolio accounted for in the financial statements reflects physical ownership of the relevant securities. The Company uses the services of an independent Custodian (JPMorgan Chase Bank, NA) to hold the assets of the Company. The investment portfolio is reconciled regularly by the Administrator to the Custodian's records. The systems and controls operated by the Custodian are also monitored by the Depositary, J.P. Morgan Europe Limited, whose responsibilities include oversight of the safekeeping of the Company's assets. The Audit Committee meets with the Depositary, as necessary, to review the work of the Depositary, and to consider the effectiveness of the internal controls at the Custodian.

Given the nature of the Company's investments, substantial funds can be received from corporate actions at investee companies. The implementation of the corporate actions can be complex and challenging. The Committee reviews such corporate actions, and takes advice where necessary. The Committee reviews the analysis of corporate actions provided by the Investment Manager and ensures that the treatment in the financial statements is appropriate.

The Company suffers withholding tax on many of its dividends received, some of which is irrecoverable. The Audit Committee and the Investment Manager aim to ensure that any recoverable withholding tax is received in a timely manner. However, such recovery can be difficult in some jurisdictions, and the Company has incurred professional service fees in this area.

At each Audit Committee meeting, the members discussed the emerging risks that may have an impact on the Company. Topics discussed in the year under review included the continuing effects of the COVID-19 pandemic, the effects of both Brexit and the pandemic on world trade and particularly disruption to supply chains, increasing levels of inflation and the growing prominence of climate change.

Internal Controls

The Board confirms that there is an ongoing process for identifying, evaluating and managing the emerging and principal risks faced by the Company in line with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published in September 2014 and the FRC's Guidance on Audit Committees published in April 2016. This process has been in place for the year under review and up to the date of approval of this report, and accords with the guidance. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the Company and policies by which these risks are managed. The risks of any failure of such controls are identified in a Risk Matrix and a schedule of Key Risks, which are regularly reviewed by the Board and which identify the likelihood and severity of the impact of such risks and the controls in place to minimise the probability of such risks occurring. Where reliance is made on third parties to manage identified risks, those risks are matched to appropriate controls reported in the relevant third-party service provider's annual report on controls. The principal risks identified by the Board are set out in the Strategic Report on pages 11 to 13.

The following are the key components which the Company has in place to provide effective internal control:

- The Board has agreed clearly defined investment criteria, which specify levels of authority and exposure limits. Reports on compliance with these criteria are regularly reviewed by the Board.
- The Board has a procedure to ensure that the Company can continue to be approved as an investment company by complying with sections 1158/1159 of the Corporation Tax Act 2010.

- The Investment Manager and Administrator prepare forecasts and management accounts which allow the Board to assess the Company's activities and to review its performance.
- The contractual agreements with the Investment Manager and other third-party service providers, and adherence to them, are regularly reviewed.
- The services and controls at the Investment Manager and at other third-party suppliers are reviewed at least annually.
- The Audit Committee receives and reviews assurance reports on the controls of all third-party service providers, including the Custodian and Administrator, undertaken by professional service providers.
- The Audit Committee seeks to ensure that the Company is recovering withholding tax on overseas dividends to the fullest extent possible.
- The Investment Manager's Compliance Officer continually reviews the Investment Manager's operations. The Investment Manager also employs a compliance consultant. Compliance reports are submitted to the Committee at least annually.

Internal control systems are designed to meet the Company's particular needs and the risks to which it is exposed. They do not eliminate the risk of failure to achieve business objectives and, by their nature, can only provide reasonable and not absolute assurance against misstatement or loss.

As the Company has no employees, it does not have a whistle-blowing policy and procedure in place. The Company delegates its main functions to third-party providers, each of whom report on their policies and procedures to the Audit Committee.

The Audit Committee believes that the Company does not require an internal audit function, principally because the Company delegates its day-to-day operations to third parties, which are monitored by, the Committee, and which provide control reports on their operations at least annually.

External Audit Process

The Audit Committee meets at least twice a year with the Auditor. The Auditor provides a planning report in advance of the annual audit and a report on the annual audit. The Audit Committee has an opportunity to question and challenge the Auditor in respect of each of these reports. In addition, the Audit Committee Chairman discusses the audit plan and results of the audit with the external Auditor prior to the relevant Audit Committee meeting. After each audit, the Audit Committee reviews the audit process and considers its effectiveness. The review of the 2021 audit concluded that the audit process had worked well, and that the key matters had been adequately addressed. At least once a year, the Audit Committee has an opportunity to discuss any aspect of the Auditor's work with the Auditor in the absence of the Investment Manager and administrators.

The Audit Committee requested that the Auditor review outstanding withholding tax reclaims to ensure that these were correctly recorded and the valuations of unlisted assets to ensure that these were reasonable and supported by suitable evidence. On both of these matters the Auditor confirmed that the information provided was satisfactory.

Auditor Assessment and Independence

The Audit Committee has reviewed KPMG's independence policies and procedures, including quality assurance procedures. It was considered that those policies and procedures remained fit for purpose. Philip Merchant has been the Audit Partner allocated to the Company since the appointment of KPMG at the 2016 AGM. The audit of the financial statements for the year ended 30 September 2021 is therefore his fifth and final year as Audit Partner. The Chairman of the Audit Committee will ensure that Philip Merchant's proposed successor has the required experience and skill set to fulfil the role of Audit Partner to the Company. The Committee has also taken into consideration the standing, skills and experience of the audit firm and the audit team and is satisfied that KPMG is both independent and effective in carrying out their responsibilities.

The Audit Committee has discussed the findings of the FRC's recent 2021 Audit Quality Report on the quality of audits performed by KPMG and questioned the audit team on any particular areas of the findings that caused them to change their audit approach and was relevant to the audit of the Trust. The Committee has satisfied itself that none of the shortcomings identified are directly relevant to the audit of the Company.

Fees Payable to the Auditor

Total fees payable to the Auditor were £40,000 (2020: £35,000). Of the total fees, the fees for audit services were £40,000 (2020: £35,000). The Audit Committee has approved and implemented a policy on the engagement of the Auditor to supply non-audit services, taking into account the recommendations of the FRC, and does not believe there to be any impediment to the Auditor's objectivity and independence. All non-audit work to be carried out by the Auditor must be approved by the Audit Committee in advance. The cost of non-audit services provided by the Auditor for the financial year ended 30 September 2021 was £nil (2020: £nil). The Audit Committee is satisfied that KPMG remains independent.

Re-appointment of the Auditor

Taking into account the performance and effectiveness of the Auditor and the confirmation of their independence, the Committee recommends that KPMG LLP be re-appointed as Auditor to the Company. The audit partner from KPMG, having been in place for five years, will retire by rotation and a new audit partner from KPMG will be appointed for the year ended 30 September 2022.

Audit Tender CMA Order

The audit was put out to competitive tender in 2016, following which KPMG were appointed as the Company's Auditor in respect of the financial year ended 30 September 2017. In accordance with the CMA Order, a competitive audit tender must be carried out at least every ten years. The Company is therefore required to carry out a tender no later than in respect of the financial year ending 30 September 2027.

CMA Order

AVI Global Trust has complied throughout the year ended 30 September 2021 with the provisions of the Statutory Audit Services Order 2014, issued by the Competition and Markets Authority ('CMA Order').

Calum Thomson

Audit Committee Chairman

8 November 2021