

# Audit Committee Report

## Summary of the role of the Audit Committee

The Audit Committee is appointed by the Board from the Non-Executive Directors of the Group. The Audit Committee's terms of reference include all matters indicated by Disclosure and Transparency Rule 7.1 and the UK Corporate Governance Code. The terms of reference are considered annually by the Audit Committee and are then referred to the Board for approval.

The Audit Committee is responsible for:

- > monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and reviewing significant financial reporting judgements contained therein;
- > reviewing the Group's internal financial controls and the Group's internal control and risk management systems, including consideration of the need for an internal audit function;
- > making recommendations to the Board for a resolution to be put to the shareholders for their approval in general meetings, on the appointment of the external auditor and the approval of the remuneration and terms of engagement of the external auditor;
- > reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- > developing and implementing a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm.

The Audit Committee is required to report its findings to the Board, identifying any matters on which it considers that action or improvement is needed, and make recommendations on the steps to be taken.

## Composition of the Audit Committee

The members of the Audit Committee are:

Mark Richardson (Chairman)  
Richard Cotton  
Tim Clark  
Steve Johnson

Richard Cotton was appointed to the Committee in the year upon his appointment to the Board. Georgina Harvey will join the Committee upon her appointment to the Board.

Membership of the Committee is reviewed by the Chairman of the Committee and the Executive Chairman, who is not a member of the Audit Committee, at regular intervals and they recommend new appointments to the Nominations Committee for onward recommendation to the Board. Appointments to the Audit Committee are for an initial period of three years, and are extendable by additional three year periods.

The Audit Committee structure requires the inclusion of one financially qualified member (as recognised by the Consultative Committee of Accountancy Bodies). Currently Mark Richardson, as a Fellow of the Institute of Chartered Accountants of England and Wales, fulfils this requirement. All Audit Committee members are expected to be financially literate.

The Committee is comprised of four Non-Executive Directors, a majority of whom have to be deemed independent, with a minimum of three members at any time. Two members constitute a quorum.

The Group provides an induction programme for new Audit Committee members and ongoing training to enable all of the Committee members to carry out their duties. The induction programme covers the role of the Audit Committee, its terms of reference and expected time commitment by members and an overview of the Group's business, including the main business and financial dynamics and risks. New Committee members also meet some of the Group's staff. Ongoing training includes attendance at formal conferences, internal company seminars and briefings by external advisers.

The Board expects the Audit Committee members to have an understanding of:

- > the principles of, contents of, and developments in financial reporting including the applicable accounting standards and statements of recommended practice;
- > key aspects of the Group's operations including corporate policies, Group financing, products and systems of internal control;
- > matters that influence or distort the presentation of accounts and key figures;
- > the principles of, and developments in, Company law, sector-specific laws and other relevant corporate legislation;
- > the role of external auditing and risk management;
- > the regulatory framework for the Group's businesses; and
- > environmental and social responsibility best reporting practices.

The Committee have reviewed the arrangements for "whistleblowing" by employees to ensure that there is a consistent policy in the Group to enable employees to voice concerns particularly in respect of possible financial reporting improprieties. A whistleblowing policy is included in the employee handbook.

## Audit Committee Report (continued)

### Meetings

The Audit Committee is required to meet three times per year and has an agenda linked to events in the Group's financial calendar. The agenda is predominantly cyclical and is therefore approved by the Audit Committee Chairman on behalf of his fellow members. Each Audit Committee member has the right to require reports on matters of interest in addition to the cyclical items.

The Audit Committee invites the Chief Executive, Chief Financial Officer, Financial Controller, and senior representatives of the external auditor to attend all of its meetings in full, although it reserves the right to request any of these individuals to withdraw. Other senior management are invited to present such reports as are required for the Committee to discharge its duties.

### Overview of the actions taken by the Audit Committee to discharge its duties

Since the beginning of the financial year the Audit Committee has:

- > reviewed the March 2012 report and financial statements, the September 2012 half-yearly report and the trading updates issued in July and January. As part of this review the Committee received a report from the external auditor on their audit of the annual report and financial statements and review of the half-yearly report;
- > considered the output from the Group-wide process used to identify, evaluate and mitigate risks;
- > reviewed the effectiveness of the Group's internal controls and disclosures made in the annual report and financial statements on this matter;
- > reviewed and agreed the scope of the audit work to be undertaken by the auditor;
- > agreed the fees to be paid to the external auditor for their audit of the March 2013 financial statements and September half-yearly report;
- > undertaken an assessment of the qualification, expertise and resources, and independence of the external auditor and the effectiveness of the audit process. This included consideration of a report on the audit firm's own quality control procedures and the audit firm's annual transparency report, and the report produced by the Audit Inspection Unit on the audit firm;
- > considered the audit partner and audit firm rotation;
- > assessed the risks associated with the possible withdrawal of the external auditor from the market;
- > met the Group's external valuers;
- > undertaken an evaluation of the performance of the external auditor; and
- > reviewed its own effectiveness.

### External auditor

The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. The policy assigns oversight responsibility for monitoring the independence, objectivity and compliance with ethical and regulatory requirements to the Audit Committee, and day-to-day responsibility to the Chief Financial Officer. The policy states that the external auditor is jointly responsible to the Board and the Audit Committee and that the Audit Committee is the primary contact.

The Group's policy on external audit sets out the categories of non-audit services which the external auditor will and will not be allowed to provide to the Group, including those that are pre-approved by the Audit Committee and those which require specific approval before they are contracted for, subject to de minimis levels. They may not provide a service which places them in a position where they may be required to audit their own work. Specifically, they are precluded from providing services relating to bookkeeping, financial information system design and implementation, appraisal or evaluation services, actuarial services, any management functions, investment banking services, legal services unrelated to the audit or advocacy services.

To fulfil its responsibility regarding the independence of the external auditor, the Audit Committee reviewed:

- > the external auditor's plan for the current year, noting the role of the senior statutory audit partner, who signs the audit report and who, in accordance with professional rules, has not held office for more than five years, and any changes in the key audit staff;
- > the arrangements for day-to-day management of the audit relationship;
- > a report identifying the number of former external audit staff now employed by the Group and their positions within the Group;
- > a report from the external auditors describing their arrangements to identify, report and manage any conflicts of interest;
- > the overall extent of non-audit services provided by the external auditor, in addition to its case-by-case approval of the position of non-audit services by the external auditor; and
- > the past service of the auditor who was first appointed in 2000.

To assess the effectiveness of the external auditor, the Audit Committee reviewed:

- > the arrangements for ensuring the external auditor's independence and objectivity;
- > the external auditor's fulfilment of the agreed audit plan and variations from the plan;
- > the robustness and perceptiveness of the auditor in his handling of the key accounting and audit judgements; and
- > the content of the external auditor's comments on control improvement recommendations.

Regard is paid to the nature of, and remuneration received, for other services provided by Deloitte LLP to the Group and, inter alia, confirmation is sought from them that the fee payable for the annual audit is adequate to enable them to perform their obligations in accordance with the scope of the audit. Where non-audit services are provided, the fees are based on the work undertaken and are not success related.

In respect of the year ended 31 March 2013, the auditor's remuneration comprised £167,000 for audit work and £137,000 for other work, principally relating to corporation tax work.

As part of this year's decision to recommend the re-appointment of the auditor, the Audit Committee has taken into account the tenure of the auditor and the audit partner and the need to consider at least every five years whether there should be a full tender process. The auditor, Deloitte LLP, has been in tenure since 2000 and the current audit partner has been in place since the audit of the current financial statements.

The Audit Committee has considered in the year the replacement for the incumbent audit partner, who has been required to rotate off the audit. Deloitte LLP was asked to present a number of candidates for the Audit Committee to consider to replace the existing partner, along with a detailed audit proposal for the ensuing three years. The Chairman of the Committee and the Group's Chief Financial Officer met the candidates and considered the audit proposal from Deloitte LLP. The Committee have approved a replacement Partner with the appropriate experience.

As a consequence of its satisfaction with the results of the activities outlined above, the Audit Committee has recommended to the Board that the external auditor is re-appointed.

The Committee is supportive of the new provision in the UK Code requiring FTSE 350 companies to put the provision of external audit services out to tender at least every ten years. The Committee has reviewed the performance of the external auditor and is satisfied that currently Deloitte LLP provides an appropriate level of service delivered by a team with an in-depth understanding of our business and the broader real estate sector. The Committee's present intention therefore is that they will review the requirement to tender the external audit closer to the time when the audit partner next rotates. There are no contractual obligations that act to restrict the Audit Committee's choice of external auditor.

### **Overview**

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of the external auditor.

The Chairman of the Audit Committee will be available at the Annual General Meeting to answer any questions about the work of the Committee.

Approved by the Audit Committee and signed on its behalf by:

### **Mark Richardson**

Audit Committee Chairman

20 May 2013