

Audit and Risk Committee



The Audit and Risk Committee is chaired by Mark Batten

Terms of reference

The Committee's terms of reference include consideration of the following issues:

- Financial reporting, including significant accounting judgements and accounting policies;
- Adoption of the Group's Risk Management Policy;
- Monitoring and evaluating the risks relating to the Group;
- Evaluation of the Group's risk profile and risk appetite, and whether these are aligned with its business model and strategy;
- Internal controls and risk management systems;
- Ensuring that key risks are identified and effectively measured, managed, mitigated and reported;
- The Group's relationship with the external auditor, including effectiveness and independence;
- Internal audit arrangement;
- The programme of controls testing; and
- Reporting responsibilities.

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The Audit and Risk Committee is chaired by Mark Batten. The other members of the Committee are Roger Lewis and Maria Bentley. Meetings of the Audit and Risk Committee are attended by the Group's Finance Director, other members of the finance team and the external auditor, KPMG Channel Islands Limited. The external auditor is given the opportunity to discuss matters without management present.

Activity

The Audit and Risk Committee met four times during the year ended 31 March 2020 and considered the following matters:

- External audit strategy and plan;
- Audit tender process;
- Audit and accounting issues of significance;
- The Annual and Interim Reports of the Group;
- Reports from the external auditor;
- The effectiveness of the audit process and the independence of KPMG Channel Islands Limited;
- Review of the Risk Matrix and mitigating controls;
- Review of controls testing undertaken; and
- Stock Exchange announcements.

Financial reporting and significant reporting matters

The Committee considers all financial information published in the annual and half-year financial statements and considers accounting policies adopted by the Group, presentation and disclosure of the financial information and the key judgements made by management in preparing the financial statements.

The Directors are responsible for preparing the Annual Report. At the request of the Board, the Committee considered whether the 2020 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy.

The key area of judgement that the Committee considered in reviewing the financial statements was the valuation of the Group's investment properties.

The valuation is conducted on a quarterly basis by independent valuers, and is subject to oversight by the Property Valuation Committee. It is a key component of the annual and half-year financial statements and is inherently subjective, requiring significant judgement. Members of the Property Valuation Committee, together with Picton employees, meet with the independent valuer on a quarterly basis to review the valuations and underlying assumptions, including the year-end valuation process. The Chairman of the Property Valuation Committee reported to the Audit and Risk Committee at its meeting in June 2020 and confirmed that the following matters had been considered in discussions with the independent valuers:

- Property market conditions;
- Yields on properties within the portfolio;
- Letting activity and vacant properties;
- Covenant strength and lease lengths;
- Estimated rental values; and
- Comparable market evidence.

The Audit and Risk Committee reviewed the report from the Chairman of the Property Valuation Committee, including the assumptions applied to the valuation, and considered their appropriateness, as well as considering current market trends and conditions, and valuation movements compared to previous quarters. The Committee noted that the independent valuer had included a 'material valuation uncertainty' statement in their report as at the valuation date due to the current unprecedented circumstances and that less certainty can be attached to the valuation as a result. The Committee considered the valuation and agreed that this was appropriate for the financial statements. The Committee was satisfied that the 2020 Annual Report is fair, balanced and understandable and included the necessary information as set out above, and it has confirmed this to the Board.

Risk Management Policy

The Committee has considered and adopted a Risk Management Policy for the Group.

The purpose of the Risk Management Policy is to ensure risks are accepted in accordance with the Group's risk appetite and further to ensure the effective management of all risks through proactive identification, measurement, management and reporting of risk pertaining to all activities undertaken by the Group. The Risk Management Policy is intended to:

- Ensure that major risks are reported to the Board for review and acceptance;
- Result in the management of those risks that may significantly affect the pursuit of the stated strategic goals and objectives;
- Embed a culture of evaluation and identify risks at multiple levels within the Group; and
- Meet legal and regulatory requirements.

Internal controls

The Board is responsible for the Group's internal control system and for reviewing its effectiveness. It has therefore established a process designed to meet the particular needs of the Company in managing the risks to which it is exposed.

As part of this process, a risk matrix has been prepared that identifies the Company's key functions and the individual activities undertaken within those functions. From this, the Board has identified the Company's principal risks and the controls employed to manage those risks. These are reviewed at each Audit and Risk Committee meeting. Also, the Committee has agreed a programme of additional controls testing which is carried out by the external auditor for the reasons set out below, in order to provide the Board with independent assurance that the controls are operating as intended and that they have been in place throughout the year. The Board also monitors the performance of the Company against its strategy and receives regular reports from management covering all business activities. The Committee has received and reviewed a copy of CBRE Limited's Real Estate Accounting Services – Service Organisation Control Report as at 31 December 2019, prepared in accordance with International Standard on Assurance Engagements 3402, in respect of property management accounting services provided to Picton Property Income Limited.

Given the scale of the Group's operations, the Board has determined that a separate internal audit function is unnecessary and that additional procedures carried out by the external auditor in conjunction with the audit of the Group's accounts will provide the Board with sufficient independent assurance regarding the internal control systems in place.

Governance

Audit and Risk Committee Report continued

Audit tender

As stated in last year’s Annual Report, during the year the Committee carried out a tender process for the external audit as KPMG Channel Islands Limited had been in place as the Group’s auditor for ten years. A tender was not mandatory, but was considered best practice at this time. The Committee determined that any new appointment would be in respect of the audit for the year ended 31 March 2021, with a suitable handover period following completion of the audit for 31 March 2020.

The tender process was as follows:

- An initial list of five firms was invited to take place in the tender, including the incumbent firm and two non-Big Four firms. Of these, one firm declined to take part;
- A Request for Proposal was sent to the four participating firms. This contained key information about the Group, the timetable for the process and contact details;
- Each participating firm had meetings and/or calls with the Chair of the Committee and the Finance Director to answer any specific questions about the Group and the audit;
- The Committee considered the four proposals received and decided to invite all four participating firms to make a presentation to the Committee;
- The most recent FRC Audit Quality Review reports for each of the participating firms were reviewed by the Committee;
- Following the presentations the Committee Chair spoke to independent referees for two of the participating firms and fed back to the rest of the Committee;
- The Committee had a further meeting, at which it agreed to put forward to the Board two firms, with a recommendation that KPMG Channel Islands Limited be reappointed as external auditor.

Independence of auditor

It is the policy of the Group that non-audit work will not be awarded to the external auditor if there is a risk that their independence may be conflicted. The Committee monitors the level of fees incurred for non-audit services to ensure that this is not material, and obtains confirmation, where appropriate, that personnel involved in any non-audit services provided to the Group are not involved in the Group’s audit. The Committee must approve in advance all non-audit assignments to be carried out by the external auditor.

The fees payable to the Group’s auditor and its member firms are as follows:

	2020	2019
	£000	£000
Audit fees	159	115
Interim review fees	16	15
Non-audit fees	16	27
	191	157

The non-audit fees include £16,000 for additional controls testing carried out by KPMG Channel Islands Limited.

Annual auditor assessment

On an annual basis, the Committee assesses the qualifications, expertise and independence of the Group’s external auditor, as well as the effectiveness of the audit process. It does this through discussion and enquiry with senior management, review of a detailed assessment questionnaire and confirmation from the external auditor. The Committee also considers the external audit plan, which sets out the auditor’s assessment of the key audit risk areas, and reporting received from the external auditor in respect of both the half-year and year-end reports and accounts.

As part of the review of auditor independence and effectiveness, KPMG Channel Islands Limited has confirmed that:

- They have internal procedures in place to identify any aspects of non-audit work which could compromise their role as auditor and to ensure the objectivity of the audit report;
- The total fees paid by the Group during the year do not represent a material part of their total fee income; and
- They consider that they have maintained their independence throughout the year.

In evaluating KPMG Channel Islands Limited, the Committee completed its assessment of the external auditor for the financial period under review. It has satisfied itself as to their qualifications and expertise and remains confident that their objectivity and independence are not in any way impaired by reason of the non-audit services which they provide to the Group.

KPMG Channel Islands Limited have been auditor to the Group since the year ended 31 December 2009 following a tender process in July 2009. The current audit engagement partner, Deborah Smith, has served three years as audit partner.

The Committee recommends that KPMG Channel Islands Limited are recommended for reappointment at the next Annual General Meeting.

Mark Batten

Chair of the Audit and Risk Committee
22 June 2020