

Audit and Risk Committee



Focus areas for 2024/2025

- / Annual and Interim Reports
- / Risk Management Policy review
- / Risk management appetite, principal and emerging risks review
- / Internal audit reviews

Mark Batten

Chair of the Audit and Risk Committee

The Committee is satisfied that the 2025 Annual Report is fair, balanced and understandable.

Meetings of the Audit and Risk Committee are attended by the Chair, the Chief Executive and Chief Financial Officer, the internal auditor and the external auditor. The external auditor is given the opportunity to discuss matters without management present.

Terms of reference

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

- Financial reporting, including significant accounting judgements and accounting policies;
- Development of a comprehensive Risk Management Policy for adoption by the Group;
- Evaluation of the Group's risk profile and risk appetite, and whether these are aligned with its investment objectives;
- Ensuring that key risks, including climate-related risks, are being effectively identified, measured, managed, mitigated and reported;
- Internal controls, controls testing and risk management systems;
- The Group's relationship with the external auditor, including effectiveness and independence;
- Internal audit and assurance services, including review of any report and assessment of control weaknesses; and
- Reporting responsibilities.

Activity

The Audit and Risk Committee met four times during the year ended 31 March 2025 and considered the following matters:

- Draft Annual and Interim Reports of the Group including the fair, balanced and understandable assessment;
- Audit and accounting key judgements and issues of significance;
- Going concern and viability assessments;
- Valuation process and valuer effectiveness;
- Risk Management Policy and appetite;
- Risk matrix, principal and emerging risks and mitigating controls;
- External Audit reports to the Committee including audit plan and fees;
- The effectiveness of the audit process and the independence of KPMG Channel Islands Limited;
- Annual internal audit plan and fees;
- Internal audit reports, findings and recommendations;
- The effectiveness of internal controls and risk management
- Stock Exchange announcements for the annual and interim results and quarterly dividends;
- Corporate Governance Code compliance;
- 2024 UK Corporate Governance Code and principal changes; and
- Committee effectiveness.

There were no specific areas outside of those identified within KPMG's audit plan which the Committee asked the external auditor to review.

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 2025 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's strategy, business model and performance.

Key areas of judgement Valuation of investment properties

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 the external valuer 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 members of the Picton team, meet with the external valuer on a quarterly basis to review the valuation and underlying assumptions, including the year-end valuation process.

The Audit and Risk Committee is chaired by Mark Batten. The other members of the Committee are Helen Beck and Richard Jones. Maria Bentley stepped down from the Committee during the year.

Mark Batten has recent relevant financial expertise for the purposes of satisfying the Code and collectively the Committee members have a broad range of financial, commercial and property expertise, sufficient to fulfil their responsibilities in relation to both financial and risk matters and to be able to advise the Board on these.

Audit, Risk and Internal Control *continued*

The Chair of the Property Valuation Committee reported to the Audit and Risk Committee at its meeting on 29 April 2025 and confirmed that the following matters had been considered in discussions with the external 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 Chair 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 considered the valuation and agreed that this was appropriate for the financial statements.

The external auditor has presented their findings to the Committee; no areas of concern or difficulties in performing their audit procedures were raised in respect of management assumptions or judgements exercised in the preparation of the financial statements or matters that needed additional work. Aside from the key area of judgement, valuation of investment properties (referred to above), there were no other specific areas which the Audit and Risk Committee has identified in conjunction with the external auditor.

Other key areas of judgement

Climate change is not considered a key audit matter by our external auditor, however, please refer to our climate related disclosures on pages 54 to 61 for further information on climate change.

Fair balanced and understandable

The Committee was satisfied that the 2025 Annual Report is fair, balanced and understandable and included the necessary information as set out here, and it has confirmed this to the Board.

Risk management and internal controls

The Board has ultimate responsibility for risk management within the Group. The Board has adopted a structured approach to considering risks and defining a framework that informs decision making so that the risks can be reported, monitored and mitigated.

The Committee is responsible for overseeing the development and implementation of the Group's Risk Management Policy including a six-monthly, or as needed, review of the existing principal and emerging risks alongside mitigating controls and their effectiveness, reporting to the Board on these matters. The Board reviews risk appetite as part of its annual risk review. The risk appetite is defined as tolerances and targets for key metrics and is set out in the risk matrix.

During the year, the Committee reviewed and updated its Risk Management Policy to strengthen the management of risks by incorporating risk and controls scoring into its framework and risk matrix. The purpose of the Risk Management Policy is to strengthen the proper management of risks through proactive risk identification, measurement, management, mitigation and reporting in respect of all activities undertaken by the Group.



During the year, the Committee reviewed the Risk Management Policy

The Risk Management Policy is intended to:

- Ensure that principal and emerging risks are reported to the Board for review;
- Ensure that climate-related risks and wider sustainability issues facing the Group are identified and monitored;
- Result in the management of those risks that may significantly affect the pursuit of the stated strategic goals and objectives;
- Embed a culture of risk awareness and evaluation and identify risks at multiple levels within the Group; and
- Meet legal and regulatory requirements.

The Board is also responsible for internal controls and for reviewing their 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, the risk matrix which identifies the Company's key functions and related activities, and the principal risks and related controls to manage those risks, is reviewed by the Committee on a six-monthly basis.

The Committee has received and reviewed a copy of CBRE Limited's Real Estate Accounting Services – Service Organisation Control Report as at 31 December 2024, prepared in accordance with International Standard on Assurance Engagements 3402, in respect of the suitability of the design and operating effectiveness of controls of the property management accounting services provided to Picton Property Income Limited. There were no issues or areas of concerns raised in the Control Report and a bridging letter has been provided to give comfort on controls in place for the period from 1 January to 31 March 2025.

UK Corporate Governance Code changes

The Committee continued to monitor the status of the Corporate Governance reforms throughout the year including the finalised amended Corporate Governance Code and related guidance issued in January 2024.

The Committee received reports from BDO and KPMG on the changes during the year, noting that the most material changes to the Code relate to internal controls.

Internal audit

BDO provides internal audit and assurance services to the Group. The Committee agreed a programme of reviews for 2024/25, which covered capital expenditure, IT controls and a follow up on previous recommendations. The Committee has considered the review reports and the recommendations arising, which had been discussed with management. The Committee has discussed with BDO the timing for the next programme of reviews for 2025/26 taking into account a number of new systems which have been introduced into the business in the early part of 2025. As a result, it was agreed that the Committee would consider BDO's review plan for the year at its October 2025 meeting.

External auditor independence

The Group operates a policy that non-audit work will not be awarded to the external auditor if there is a risk their independence may be compromised. 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 separate personnel are involved in any non-audit services provided to the Group.

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:

	2025 £000	2024 £000
Audit fees	218	223
Interim review fees	38	25
Non-audit fees	–	–
	256	248

The external auditor has not been engaged to perform non-audit work during the financial year ending 31 March 2025 (2024: £nil).

External auditor annual assessment

The Committee is responsible for assessing the effectiveness and quality of the external auditor and the external audit process every year, taking into consideration relevant UK professional and regulatory requirements; reviewing and monitoring the external auditor's independence and objectivity; and for assessing annually the external auditor's qualifications, expertise and resources. The Committee considered the extent to which the auditor demonstrated professional scepticism and challenged management's assumptions during the course of the audit, and confirmed there were no areas for concern.

In 2024, the assessment was carried out by way of a questionnaire for the financial period under review, which was prepared by the Company Secretary, in conjunction with the Committee Chair. This was completed by Committee members and other key stakeholders.

As part of the review of auditor independence and effectiveness, KPMG Channel Islands Limited have 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 their work and 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.

KPMG Channel Islands Limited have been external auditor to the Group since the year ended 31 December 2009. They were reappointed as the Group's external auditor following a tender process in February 2020. The current audit engagement partner, Steve Stormonth, has completed three years as audit partner.

The Committee concluded from the results of the assessment that it was satisfied as to the qualifications and expertise of the KPMG audit partner and team and that they remained confident that their objectivity and independence was not in any way impaired by reason of any non-audit services which they provided to the Group.

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

The Committee also considers the external audit plan, setting 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.

Mark Batten

Chair of the Audit and Risk Committee
21 May 2025