

# Audit and Risk Committee

The Audit and Risk Committee is chaired by Mark Batten. The other members of the Committee are Maria Bentley and Richard Jones.

Meetings of the Audit and Risk Committee are attended by the Group's Finance Director and other members of the finance team, the internal auditor and the external auditor. The external auditor is given the opportunity to discuss matters without management presence.



The Committee was satisfied that the 2023 Annual Report is fair, balanced and understandable.

**Mark Batten**

Chair of the Audit and Risk Committee



### 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 the 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.



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### Activity

The Audit and Risk Committee met five times during the year ended 31 March 2023 and considered the following matters:

- External audit strategy and plan;
- 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 Group's Risk Management Policy and appetite;
- Review of the risk matrix and mitigating controls;
- Internal audit reports and programme; 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 2023 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.

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 external 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 members of the Picton team, meet with the external valuer on a quarterly basis to review the valuations and underlying assumptions, including the year-end valuation process. The Chair of the Property Valuation Committee reported to the Audit and Risk Committee at its meeting on 2 May 2023 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 Committee was satisfied that the 2023 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 developed a comprehensive Risk Management Policy which has been adopted by the Group.

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. The Risk Management Policy is intended to:

- Ensure that major risks are reported to the Board for review;
- 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.

### Internal control and internal audit

The Board is responsible for the Company'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. The Board 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 2022, prepared in accordance with International Standard on Assurance Engagements 3402, in respect of property management accounting services provided to Picton Property Income Limited.

During the year the Board appointed BDO LLP to undertake internal audit and assurance services, replacing the previous arrangement of additional controls testing by the external auditor. The Committee agreed a programme of reviews for 2022/23, which covered cyber security, key financial controls and debt covenants. The Committee has considered the review reports and the recommendations arising, which had been discussed with management. The Committee also considered and agreed the review plan for 2023/24 which will cover property management, lease management and asset management.

### 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 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:

	<b>2023</b>	2022
	<b>£000</b>	£000
Audit fees	<b>179</b>	174
Interim review fees	<b>16</b>	16
Non-audit fees	-	16
	<b>195</b>	206

### 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, 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.

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.

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 any 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. They were reappointed as the Group's auditor following a tender process in February 2020. The current audit engagement partner, Steve Stormonth, has now completed his first year 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  
24 May 2023