



### Committee members

#### Ian Barlow (Chair)

June Barnes

Rosemary Boot

### Key activities in 2018/19

- Changes to membership
- Overview of the process and fees related to the premium listing of the Company's shares
- Financial reporting including the adoption of IFRS 9 and IFRS 15
- Focus on the assessment and monitoring of risks. Ensured this is occurring at all levels of the business
- Agreed the internal audit plan and reviewed the work undertaken
- Compliance with the 2018 UK Corporate Governance Code requirements

### Key focus areas for 2019/20

- Financial reporting
- Adoption of IFRS 16 'Lease Accounting'
- Monitor the impact of other planned or expected changes in financial reporting requirements
- Risk identification, management and mitigation
- Maintain and manage the ongoing internal audit programme

→ The terms of reference of the Audit Committee are on the Company's website: [www.urbanandcivic.com/about-us/corporate-governance/audit-committee](http://www.urbanandcivic.com/about-us/corporate-governance/audit-committee)



We monitor the integrity, accuracy and consistency of financial reporting to ensure that it enables an accurate assessment of the Company's position, performance, business model and strategy.

**Ian Barlow**

Chair of the Audit Committee

## Audit Committee report

### Dear Shareholder,

I am pleased to introduce the report of the Audit Committee for the financial year ended 30 September 2019. I have been a member of the Committee since September 2016 and was appointed as chair on that date. In February 2019, Jon Di-Stefano was appointed as chair of the Committee succeeding me, although I have continued to act as a member of the Committee. Subsequent to the year end, with effect from 18 November 2019 and as explained further on page 67, Jon stepped down as member and chair of the Committee and I have resumed the role of chair. Further details on the membership of the Committee are contained in this report, which also covers the key activities of the Committee during the year.

### Introduction

The Committee's key responsibilities are to oversee and report to the Board on the accounting, financial reporting, risk management and internal control processes of the Group and to supervise the relationship with the external auditor.

### Company position and prospects

We ensure that all financial reporting by the Board is a fair, balanced and understandable assessment of the Company's position and prospects and we specifically review the long-term viability and going concern statements and recommend their adoption to the Board. We receive reports from management and the auditor sufficient to satisfy the Committee of the integrity of financial and narrative statements and any related disclosures.

**Introduction** continued

**Risk and internal controls**

We assess the risks and risk appetite of the Group and review the procedures to manage risk and the mitigation measures in place. We report to the Board on these matters. The Board and committee structure ensures that a robust assessment of the emerging and principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, has been undertaken. The SDC and CDC assess risk at their meetings and report to the EMC, which reviews the risk register at every meeting which is then updated as required to reflect discussions and reported upwards to the Audit Committee and ultimately to the Board. We oversee the internal control systems of the Group and agree and monitor the workstream of the internal auditor, Grant Thornton, with regular reporting by them to the Committee. We are satisfied that the internal controls in place across the Group are fit for purpose and that the Executive Directors and senior management take any appropriate action as may be identified by internal audit reports and/or Board discussions.

The Audit committee is responsible for the review of the adequacy and effectiveness of the Group's internal control and risk management systems but the Board retains ultimate responsibility. Further details are in the risk review on pages 34 to 43.

**Audit function**

We oversee the process of ensuring the independence, performance, quality and efficiency of the external audit performed by BDO LLP. This enabled us to assess their effectiveness.

The Committee maintains a degree of independence from, and oversight of, management to ensure appropriate protection of

stakeholders' interests in respect of financial reporting, risk and internal controls. We ensure that the reporting to shareholders is clear, concise and understandable.

The Board has adopted the 2018 UK Corporate Governance Code (the '2018 Code') and the Committee abides by the principles and provisions applying to audit committees and complies with the relevant provisions set out in the FRC Guidance on Audit Committees. We ensure that the Group complies with all regulatory and governance requirements and guidelines in relation to financial reporting and accounting matters, including accounting policies and practices.

**During the year**

During the year, the Committee has overseen all financial reporting, with its workstreams being consistent with prior years. The Committee has spent time discussing the emergence and adoption of new accounting standards, particularly IFRS 15 on revenue recognition, the impact of which is explained in note 1 to the financial statements. We have continued to review risk management processes at all levels of the business, including the mitigation of risk. This is set out in more detail in the risk review on pages 34 to 43. We oversee the internal controls in place throughout the Group and internal audit programme. We review outputs from the reports of the internal auditor and the associated action points. This process is further explained later in this report.

Under the 2018 Code, the responsibility for whistleblowing has moved from the Audit Committee to the Board and, as a result, it is the Board that now reviews the whistleblowing process and receives regular whistleblowing reports, rather than this Committee. We updated our terms of reference to reflect this and other provisions of the 2018 Code.

**Membership and meetings**

During the year, the membership of the Audit Committee was reviewed by the Nomination and Governance Committee and the Board. Following the resignation of Duncan Hunter as a Non-Executive Director and member of the Committee on 13 February 2019, I was appointed as Senior Non-Executive Director and stepped down as Chair of this Committee, but remained a member. Jon Di-Stefano replaced me as Chair on the same date. On 23 May 2019, Rosemary Boot was appointed as a member of the Committee. All members are independent Non-Executive Directors. There were no other changes to the Committee membership during the year.

On 18 November 2019 and as explained further on page 67, Jon Di-Stefano stepped down as member and chair of the committee and I resumed the role of chair.

The Board is satisfied that the Committee has appropriate skills, experience and competence relevant to the Company's sector in order to fulfil its responsibilities.

This experience includes financial reporting, risk management, internal controls and strategic management.

I bring significant financial experience to the Committee as a chartered accountant with a long career in finance and accounting. I was senior partner (London) at KPMG until 2008 and am chair of the audit committees of two other listed companies. June Barnes has experience of running a large business and of risk management and Rosemary Boot has experience of working as a group finance director, as an investment banker and is currently a member of two other audit committees.

Attendance by the members of the Committee at the seven scheduled meetings held during the year ended 30 September 2019 is shown below:

		Independent	Date of appointment to the Committee	Committee tenure as at 30 September 2019	Meetings attended/ eligible to attend
<b>Ian Barlow</b>	Chair	Yes	01/09/16	3 years 1 month	<b>7/7</b>
<b>June Barnes</b>	Member	Yes	22/05/14	5 years 4 months	<b>7/7</b>
<b>Rosemary Boot</b>	Member	Yes	23/05/19	4 months	<b>2/2</b>

## Membership and meetings continued

Committee meetings are attended by all members of the Committee, the Chief Executive, Finance Director and Company Secretary. The Chair of the Company is invited to attend all meetings. Other Directors, senior members of the finance team, the external auditor and the internal auditor attend by invitation only, if required. This enables a full contribution to the matters considered at meetings.

Agenda items are co-ordinated to an annual calendar of discussion items which is closely linked to the financial year and related reporting requirements. This ensures that the Committee carries out a timely review of all financial, audit (both internal and external), risk, regulatory and governance items to enable it to discharge its duties effectively and in accordance with its terms of reference. The Committee is satisfied that it receives sufficiently detailed and relevant information from the Company's management, external auditor and internal auditor. As Chair of the Committee I report to the Board following each Committee meeting, providing a summary of the items discussed and conclusions reached, highlighting any issues requiring Board discussion. The minutes of each Committee meeting are circulated to all Directors and reviewed at a subsequent Board meeting. The Company Secretary circulates an action list setting out the points arising from each Committee meeting together with attributed responsibility for completion and this action list is updated for monitoring and review at the next Audit Committee meeting.

Members of the Committee spend time with executive management outside of the scheduled Committee meetings, seeking guidance and clarity on any issues as required. These meetings are crucial to the process of gaining a strong understanding of key and emerging areas, thus facilitating informed and constructive discussions at committee meetings.

The Committee meets privately with the external auditor at least twice a year.

## Internal audit

The Group's internal audit function is outsourced to Grant Thornton. Their role is to review the governance, risk management and internal controls framework in place across the Group.

We consider annually the need for this function and whether the Company would benefit from the establishment of an internal (rather than outsourced) function. As part of this review, we monitor the effectiveness of Grant Thornton. Having reviewed this during the year, we have confirmed to the Board that the current outsourced arrangement works efficiently, is productive, beneficial to management and the Board in our oversight role and cost effective to the Group. We have therefore recommended that this arrangement should remain in place. It is designed to cover all key areas of financial and enterprise controls over a three year cycle.

At each meeting, the Audit Committee reviews updated reports from Grant Thornton on the audits in progress and the review of findings from completed audits, including a schedule of actions identified and management's response to, and implementation of, any recommendations. We monitor the progress made against these recommendations with Grant Thornton reporting to the Committee on any areas where action has been identified but not completed. Grant Thornton discuss first with management and then report to

the Committee on the explanation if any specific recommendation was not actioned and also assess and evaluate any other mitigations that may have been put in place. We also received a report on the alignment of key risks to the internal audit plans. Grant Thornton regularly attend Audit Committee meetings, presenting an opportunity for an in-depth discussion of their reports.

The Committee is satisfied that Executive Management has provided adequate assurance that the Group's internal controls are working effectively and is also satisfied that Grant Thornton's review of internal controls has not highlighted any significant weaknesses or failures in the operations and processes of the Group.

The Committee approves the internal audit programme of work and holds this under review in light of progress made on audits and issues arising from the reports.

The internal controls review during the year ended 30 September 2019 covered:

### Investments and divestments

- Assessment of the procedures in place when making investment and divestment decisions.

### Outsourced contract management

- Review of the effectiveness of the governance in place when outsourcing contracts.

### Health and safety

- Review of the processes for identifying and mitigating key risks that could affect the Company's ability to operate.

### Previous audits

- A detailed follow-up on actions from previous audits.

The audit cycle is now in its third year and we have assessed the scope and value of the audits that have been done to date and have assessed which areas require follow-up or should be repeated. The proposed 2019/20 audits will cover:

### Property and estate management

- To review the processes and controls in place and the mitigation of key property risks.

### Risk management

- To assess the adequacy of the risk management framework for identifying and managing key risks.

### The Catesby Estates business unit

- To review financial controls and the reporting and maintenance of accurate financial records.

### HR and succession planning

- To cover various areas within the HR function including the compliance with key Group policies and regulations.

In 2019/20 we will plan the next three-year cycle so that we continue to gain assurance over all areas on which we make assumptions on the controls in place within the Group.

### External audit

The Committee is responsible for overseeing the relationship with the external auditor and for reviewing the terms of their engagement and remuneration, their independence, their effectiveness and the quality of their output.

BDO was previously auditor to the Terrace Hill Group and has been the auditor to the Urban&Civic Group since its Listing in May 2014. The Committee has previously reviewed the requirements relating to the tender of auditors and concluded that the date of appointment of BDO is deemed to be May 2014. As reported last year, a competitive tender will therefore be required by 2024 and the Committee will ensure that a competitive tender process takes place within this timescale. Audit engagement partners are required to rotate every five years and a rotation will not be required for the Group's audit partner, Ed Goodworth, until the year ending 30 September 2021.

The Audit Committee reviews annually the effectiveness and quality of the external auditor taking into account their independence, objectivity, expertise and resources and has concluded that both the audit and audit process were effective. The key elements of this judgement are informed by:

- the manner in which the audit plan was fulfilled;
- the observed quality of BDO's assessment of, and challenge to, the key accounting and audit judgements;
- the content of the audit clearance report issued by them; and
- the completion of an effectiveness questionnaire by Committee members and key members of the finance team.

The questionnaire assessed the execution of the audit plan, the understanding and performance of the auditor during the year-end audit, the relationship with and, as appropriate, the challenge to management and the quality of the reporting to the Committee. BDO also provides an annual report on their independence and objectivity and their compliance with statutory, regulatory and ethical standards. The Company supports BDO's policy that senior management of the audit team should rotate after seven years.

During the year the Committee approved the audit and non-audit fees paid to BDO. The non-audit fees related to the interim review and to work undertaken in connection with the transfer of the listing category of the Company's ordinary shares from the Standard Listing segment to the Premium Listing segment of the Official List of the Financial Conduct Authority.

Details of the total Group auditor fees paid to the external auditor for the year ended 30 September 2019 are set out below and in note 3 to the accounts.

Year to 30 September	2019 £'000	2018 £'000	2017 £'000
Audit fees	311	262	252
Review of interim results	43	37	36
Non-audit fees	79 <sup>1</sup>	42 <sup>1</sup>	—
Total	433	341	288
Non-audit fees (including interim review) as a percentage of total fees	28%	23%	13%

1. Fees incurred for reporting accountant services in relation to the Company's premium listing application.

We do not consider that the non-audit work impacted the independence and objectivity of the external auditor and confirm that the fees were incurred in accordance with our policy for the provision of non-audit services. This policy ensures that the independence and objectivity of the auditor are maintained.

After reviewing the external auditor's performance during the year, the Committee has concluded that BDO remain effective in their role as external auditor and recommends to the Board that they be reappointed for a further year. A resolution to this effect and a resolution to authorise the Directors to set the remuneration of the auditor will be proposed at the 2020 AGM. I hope that shareholders will support the Committee and vote in favour of these resolutions.





## Main activities of the Committee during the year ended 30 September 2019

### ► Financial reporting

- Ensured that the information contained in the 2018 Annual Report was accurate and that the information contained in the strategic report was consistent with the financial statements and notes to the accounts. We reviewed the appropriateness of the Group's policies, assumptions, judgements and estimates as applied by management to the financial statements.
- In respect of the financial year ended 30 September 2018, reviewed and approved the letter of representation and external auditor's letters of engagement.
- Discussion of the audit findings report in relation to the financial year ended 30 September 2018.
- Discussion and assessment with the external auditor on the following significant areas of judgement in relation to the year ended 30 September 2018:
  - Valuation of investment properties and carrying value of trading properties – the Committee discussed the valuation of each property with the external valuers and/or management if held at Directors' valuation. The Committee assessed the integrity of the valuation process. Key judgements and assumptions applied to each valuation were considered as well as the valuation movement in the year. The Committee considered the key inputs to the discounted cash flow model (used for the largest assets valued, Alconbury Weald, RadioStation Rugby, Priors Hall, Newark and Waterbeach) or other valuation models and concluded that the assumptions applied were appropriate.
  - Revenue and profit recognition – consideration of revenue and profit recognition in respect of sales of residential land parcels and individual units constructed on strategic sites, assessing the conditions of the licence arrangements, with the conclusion that they were appropriate.
- Approval of the going concern and long-term viability statements and supporting documents including the business plan and five-year forecast.
- Review and recommendation to the Board the approval of the audited financial statements and preliminary announcement of results of the Group for the year ended 30 September 2018 and the Group's interim financial statements and announcement of results for the six months to 31 March 2019 together with the respective investor presentations of results, concluding that the presentations were consistent with the audited financial statements.
- Review of the audit planning report prepared by the external auditor in relation to the year ended 30 September 2019, confirming materiality thresholds and agreeing the key audit matters for consideration by the auditor as part of the audit.
- Review and approval of audit and non-audit fees incurred by the external auditor.
- Approval of the audit timetables for the 2019 half year and year end.
- Assessment of the impact of new accounting standards and the adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'.
- Review and approval of the Group policy for the accounting treatment of promotion agreements, having received assurance from the external auditors that they agreed with our approach.
- Discussion of dividend recommendations for the final dividend for the year ended 30 September 2018 and the interim dividend for the year ended 30 September 2019, in line with the Company's dividend policy.

### ► Governance

- Approval of the procedures in place in relation to the delegation of authorities for incurring expenditure, prior to approval by the Board.
- Review and assessment of the credit checks process in place in relation to the appointment of third party contractors.
- Review, on a six-monthly basis, declarations made by Directors and employees under the Group's gifts and hospitality policy above an agreed threshold.
- Review at each meeting of reports on the Group's actions to ensure compliance with General Data Protection Regulation.
- Review of charitable donations made by the Group during the year under review and confirmation that these donations were in compliance with the Group's charitable donations policy.
- Assessment of its own performance against the role and responsibilities set out in its terms of reference. Further assessment of the effectiveness of the performance of the Committee will be considered as part of the 2019/20 Board evaluation process.
- Review of terms of reference in light of the 2018 Code and best practice recommendations and approval of changes for recommendation to the Board for adoption.

**Main activities of the Committee during the year ended 30 September 2019 continued****► Risk and internal controls**

- Assessment of the Group's risk management framework and risk appetite.
- At each meeting the Committee receives a report on key risks and a summary of movement during the financial year to date and reviews the mitigation measures in place and the impact of this mitigation on the risk profile. This enables a review of the effectiveness of risk management processes.
- Approval of the risk review for inclusion in the 2018 Annual Report and Accounts.
- Further details on the Group's key risks and our approach to risk management are found in the risk review on pages 34 to 43.

**► Internal and external audit functions**

- The Group's internal and external audit arrangements and activities during the year are explained elsewhere in this report.

**► Other activities**

- The Committee oversaw the process of the transfer of the listing category of the Company's ordinary shares from the Standard Listing segment to the Premium Listing segment of the Official List of the Financial Conduct Authority and approved the fees of external advisers, including the external auditor, in relation to this work.
- The Committee provided assistance to the Remuneration Committee by providing verification of the assessment of the achievement of the cash generation targets for the year ended 30 September 2018, in relation to the Directors' bonus objectives.

**► Training and development**

The Committee received briefing updates on financial reporting, covering the following areas:

- Accounting standards relating to revenue and financial instruments
- Accounting treatment of leases
- Brexit disclosures
- Critical judgements and estimates disclosures
- Developments in narrative reporting



The Committee's focus for the year ending 30 September 2020 will be the ongoing assessment of risk identification, management and mitigation within the Group and continued overview of the internal controls programme.

**Financial year ended 30 September 2019**

Since the year end, the Committee has reviewed and recommended Board approval of the Annual Report and Accounts and preliminary announcement for the year ended 30 September 2019 and the investor presentation of results. We are satisfied with the integrity of the financial statements and have reviewed the significant financial reporting judgements as set out below. The Committee is satisfied with the accuracy and consistency of information included in the Annual Report and Accounts for the year ended 30 September 2019 and that, taken as a whole, they are fair, balanced and understandable and that the financial statements represent a true and fair view of the financial state of the Group and enable an accurate assessment of the Company's position, performance, business model and strategy.

**Going concern and long-term viability statements**

The Committee has reviewed the assumptions upon which the going concern principle has been adopted for the preparation of the financial statements, has assessed the prospects and financial viability of the Group and has approved the long-term viability statement set out on page 33.

**Financial reporting and significant judgements**

The significant areas of judgement considered by the Committee and discussed and assessed with the external auditor in relation to the year ended 30 September 2019 were as follows:

**1) Valuation of investment properties and carrying value of trading properties**

The Group's property interests are valued in order to ascertain the fair value of investment properties and the carrying value of trading properties, which are held at the lower of cost and net realisable value. These valuations also inform the calculation of EPRA NAV and EPRA NNNAV and at 30 September 2019 the total EPRA value of the Group's property interest was £702.5 million, comprising investment properties, trading properties, properties within property, plant and equipment, property related trade and other receivables and the Group's share of properties and related receivables held under both joint ventures and joint operations. CBRE, independent valuers valued 96 per cent of the Group's property interests and the Directors valued the remainder.

Significant judgement is required due to the subjective nature of property valuations. Members of the Committee met with the external valuers, without management present, as part of both the half-year and full-year valuations. Each property valuation was discussed individually with consideration given to the key judgements and assumptions applied to each valuation as well as the valuation movement generated in each period. A discounted cash flow model is used by CBRE to value the strategic land assets, reflecting the scale of the assets and length of time over which the assets will be realised. The Committee considered the key inputs to the models, namely the timing and quantum of significant cash outflows, land prices, forecast house prices, inflation, housebuilder profit assumptions and discount rates, and concluded that the assumptions applied were appropriate.

Members of the Committee also discussed and reviewed Directors' valuations and considered that the key assumptions applied were appropriate.

## 2) Revenue and profit recognition

The Committee considered revenue and profit recognition under IFRS 15 for the first time during the year in respect of sales of residential land parcels on its strategic sites.

Licence sales contain both a fixed minimum price as well as a variable overage element with revenue recognised when the risks and rewards of ownership transfer on completion. The sales receipts are ultimately dependent upon the onward sales prices achieved by the housebuilder. Variable consideration including overages are estimated, taking into consideration the time to recover overage amounts as well as factors which may give rise to variability and are recognised to the extent that it is highly probable that there will not be a significant reversal in the future. Members of the Committee assessed the conditions attaching to these arrangements when deciding how much and at what point revenue should be recognised and the requirements of IFRS 15, taking into account contractual terms, forecast timescales over which amounts were payable and the ability to reliably measure variable consideration. The Committee also considered the methodology and allocation of directly attributable servicing costs of each land parcel prior to sale which includes an allocation of site-wide infrastructure costs.

The Committee reviewed these methods of revenue and profit recognition and concluded that they were appropriate.

## Future accounting changes

The Audit Committee has been briefed by management and the external auditor on the effect of the following new accounting standard from the financial year 2020 onward.

### IFRS 16 'Lease Accounting'

Leases will now be required to be brought on balance sheet as both a right to use asset and an associated liability. This new standard will result in the Group bringing on balance sheet operating leases for the first time. The impact of the incoming standard on this year's results, which is not expected to be significant, is set out in note 1 of the financial statements.

## 2019/20 priorities

The Committee's focus for the year ending 30 September 2020 will be the ongoing assessment of risk identification, management and mitigation within the Group and continued overview of the internal controls programme.

The next phase of the internal controls review will cover property and estate management, risk management, the Catesby Estates business unit and HR and succession planning.

The Committee will also continue to focus on financial reporting related to the half year and year-end processes. During the year ending 30 September 2020, the Committee will work with management and the auditor to ensure appropriate adoption of the new accounting standard as discussed above.

I will report further on the activities of the Committee in next year's Audit Committee report.

I look forward to meeting shareholders at the 2020 AGM to answer any questions on the Audit Committee's activities and responsibilities.



**Ian Barlow**

Chair of the Audit Committee

27 November 2019