

AUDIT, RISK AND INTERNAL CONTROL

The Audit and Risk Committees fulfil a vital role in the Group's governance framework, providing valuable independent challenge and oversight.

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AUDIT, RISK AND INTERNAL CONTROL CONTINUED

Overview

Complying with the Code Principles

PRINCIPLE M

The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

In addition to the annual review of effectiveness, the Committee considered the independence and objectivity of the External Auditor through a combination of assurances provided by the External Auditor on the safeguards in place to maintain independence, oversight of the Non-Audit Services Policy and fees paid. KPMG confirmed that their staff complied with their ethics and independence policies and procedures.

The Group does not currently have an internal audit function, a matter which is reviewed annually by the Audit Committee.



See page 158

PRINCIPLE N

The board should present a fair, balanced and understandable assessment of the company's position and prospects.

The Board as a whole is responsible for determining whether the 2021 Annual Report and financial statements are fair, balanced and understandable. The Audit Committee's role in this is covered on page 158. For the year ended 31 March 2021, the Committee confirmed to the Board that it was satisfied that the Annual Report was fair, balanced and understandable.



See page 158

PRINCIPLE O

The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

During the year, the Board established a Risk Committee to oversee the Group's risk management. See more detail on page 163.

Principal risks have been considered in detail by the Board, the Risk Committee and the Executive Committee. More detail can be found on pages 63 to 70.

Read about our risk management and internal control framework on pages 161 to 166.



See page 161

AUDIT, RISK AND INTERNAL CONTROL CONTINUED

Audit Committee Report

Our priority is to safeguard the integrity and effectiveness of our financial reporting and audit process.

Attendance at Audit Committee meetings

| | Member since | Meetings attended |
|--------------------------|--------------|-------------------|
| Chris Girling – Chairman | 2013 | 3/3 |
| Maria Moloney | 2012 | 3/3 |
| Lesley-Ann Nash | 2021 | 1/1 |
| Damon Russell | 2013 | 3/3 |
| Rosie Shapland | 2020 | 1/1 |
| Suzi Williams | 2020 | 3/3 |

Notes:

In accordance with the UK Corporate Governance Code 2018, the Board considers that Chris Girling has significant recent and relevant financial experience.

Stephen Hubbard was appointed Company Chairman in July 2020. In compliance with the Code, Stephen stepped down as a member of the Audit Committee. Stephen attended all scheduled meetings of the Audit Committee prior to this date.

Lesley-Ann Nash and Rosie Shapland joined the Board with effect from January 2021 and November 2020, respectively.

Ishbel Macpherson stepped down as a Non-Executive Director of the Company on 24 July 2020. As a member of the Audit Committee, Ishbel attended all meetings held prior to her departure.

Chris Girling

Chairman of the Audit Committee



AUDIT, RISK AND INTERNAL CONTROL CONTINUED**AUDIT COMMITTEE REPORT** CONTINUED**Chairman's
Audit
Committee
Letter**

2 June 2021

Dear Shareholder

As Chair of the Audit Committee (the 'Committee'), I am pleased to present the Committee's report for the financial year ended 31 March 2021.

This is my final report as Chairman of the Audit Committee as I will step down from this role following the Annual General Meeting in July 2021. Rosie Shapland, a fellow Non-Executive Director and a current member of the Committee, will succeed me as Chairman. Rosie is a Chartered Accountant and was previously an audit partner at PwC. Rosie also serves as Chair of the Audit Committees for both Foxtons Group plc and PayPoint plc. In accordance with the UK Corporate Governance Code, the Board considers that Rosie has significant, recent and relevant financial experience, based on her previous role at PwC and on her current Non-Executive Director roles.

On an ongoing basis, the Board reviews the composition of the Committee to establish that it remains proportionate to its role and responsibilities. The Board also appointed Lesley-Ann Nash as a Non-Executive Director from January 2021, who also sits on the Audit Committee.

The report is intended to provide shareholders with an insight into how key topics are considered during the year, together with how the Committee discharged its responsibilities.

The report details the key activities of the Committee during the year under review, alongside its principal responsibilities. These can be found on page 155.

Covid-19

During the year, the Committee considered potential risks arising from the ongoing uncertainty surrounding the impact of the Covid-19 pandemic and long-term viability. Full details of our going concern review are contained on page 81, following which we concluded that Workspace continues to be a viable business and remains a going concern.

Review of material issues

The Audit Committee has a key role in checking that the Group's narrative reporting gives a fair, balanced and understandable assessment of the Group's position and prospects and establishing that the financial statements provide a true and fair view of the Group's financial affairs. As part of this process, we considered the significant financial judgements made during the year, along with other key financial reporting issues. In this context, we considered the twice annual valuation of the investment portfolio as a significant matter, for which further details are provided on page 159.

We also considered, as we do on a regular basis, the potential for fraud in revenue recognition, scope for management override of controls and compliance with regulations. We found no concerns arising from this review.

A description of the main activities and information on the other significant issues that the Committee considered during the year can be found on 156 to 159.

2021 Annual Report

After reviewing the reports from management and, following discussions with the External Auditor and valuers, the Committee is satisfied that:

- Both the External Auditor and valuers remain independent and objective in their work
- The financial statements appropriately addressed the key judgements and key estimates
- The Group has adopted appropriate accounting policies

AUDIT, RISK AND INTERNAL CONTROL CONTINUED**AUDIT COMMITTEE REPORT** CONTINUED**Financial Reporting Council (FRC) review**

The Group received a letter from the Financial Reporting Council concerning its limited scope review of the Group's Annual Report and Accounts for the year ended 31 March 2020. In response to the letter, we provided the FRC with further information relating to assumptions underlying our valuation and have made some minor amendments to the disclosures in note 10, Investment Property.

The FRC review was based on the Annual Report and Accounts and did not benefit from detailed knowledge of the business or an understanding of the underlying transactions entered into. It was, however, conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework.

Committee effectiveness

This year the Committee's effectiveness was formally reviewed as part of the external Board evaluation process and I am pleased to report that it was found that the Audit Committee continues to operate effectively.

In addition, the quality of the papers and presentations by management, the level of challenge from the Audit Committee, KPMG and CBRE and the quality of discussions held, gives the Committee further comfort and assurance that it is performing its role effectively.

I hope that you find assurance from this report on the work undertaken by the Committee during the year.

**Chris Girling**

Chairman of the Audit Committee

AUDIT, RISK AND INTERNAL CONTROL CONTINUED

AUDIT COMMITTEE REPORT CONTINUED

Role of the Audit Committee

The Audit Committee reviews and monitors the integrity of the Company's financial reporting in advance of its consideration by the Board. The Committee oversees the relationship with the External Auditor in order to assess their effectiveness and to annually assess their independence and objectivity.

How the Committee operates

The Audit Committee is composed solely of independent Non-Executive Directors, with a wide diversity of experience, including finance, property and marketing. Chris Girling, as a Chartered Accountant with many years of senior financial experience, satisfies the requirement of having appropriate recent and relevant financial experience.

Meetings of the Audit Committee coincide with key dates in the financial reporting and audit cycle. During the year, the Committee met on three occasions, in May and November 2020 and in March 2021. In addition, the Committee met in May 2021 to review the 31 March 2021 Annual Report along with the property valuation and the findings of the External Auditor.

A forward plan of agenda items guides the business to be considered at each meeting and is regularly reviewed and developed. This assists and facilitates the work of the Committee, enabling it to give thorough consideration to matters of particular importance to the Company.

The Committee receives information in advance of its meetings including information from management and detailed reports from the External Auditor including the audit report. The Committee meets privately with the External Auditor, at least annually and liaises with Company management in considering areas for review.

The Committee Chair also meets separately with the Chief Financial Officer, Chief Executive Officer and members of the Audit team at KPMG. These meetings inform the work of the Committee by identifying key areas of focus and emerging issues.

The Committee regularly invites the external audit lead partner, Nick Knight of CBRE, the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer and Head of Finance to its meetings.

Meetings of the Committee are held in advance of the Board meetings to allow the Committee Chairman to provide a report on the key matters discussed, to the Board, and for the Board to consider any recommendations made.

All of this, along with ongoing challenge, debate and engagement, allows the Committee to discharge its responsibilities effectively.

AUDIT, RISK AND INTERNAL CONTROL CONTINUED**AUDIT COMMITTEE REPORT** CONTINUED**THE ROLE OF THE AUDIT COMMITTEE**
CONTINUED

The Audit Committee works with the Risk Committee, established in September 2020, to review the adequacy and effectiveness of the Group's risk management and internal control.



Chris Girling
Chairman of the Audit Committee

Audit Committee responsibilities**Financial reporting**

- Review the year-end and interim financial statements and monitor the reporting process. Information on significant matters in relation to the financial statements that were considered by the Committee can be found on page 159.
- Advise the Board on the Group's viability and going concern status. More information on the Committee's assessment of the Group's viability and going concern status can be found on pages 81 and 82.
- Review the content of the Annual Report and Accounts and advise the Board on whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess performance, the business model and strategy. The Group's strategy and business model are explained on pages 29 to 33 and 11 to 19 respectively.
- Review the appropriateness of accounting policies and practices.
- Review the reports on viability and going concern including the assumptions included in plans, key risks considered, and the sensitivities tested.

External audit

- Assess the work of the External Auditor and any significant financial judgements made by management. More information is available on pages 157 to 159.
- Review and monitor the objectivity and independence of the External Auditor, including its policy governing the provision of non-audit services. Refer to page 158 for more information.
- Review and monitor the effectiveness of the external audit process and the ongoing relationship with the External Auditor. More information on our process of safeguarding auditor independence is available on page 158.

Financial risks

- Remains responsible for oversight and review of controls relating to financial risks and risks relating to finance IT systems.
- Review the operational effectiveness of key controls in place to manage finance risk.

More information on the Group's internal controls and risk management process is available on page 166 and the work of the Risk Committee is available on page 164.

Governance, best practice and development

- Keeping up to date with developments regarding control environments (with advice from the External Auditor).
- Keeping up to date on investor, shareholder and market sentiment (with advice from the Company's brokers).
- Keeping up to date with regulatory and legislative matters relevant to the Company (with advice from the Company's legal advisers).

AUDIT, RISK AND INTERNAL CONTROL CONTINUED

AUDIT COMMITTEE REPORT CONTINUED

Key matters considered by the Committee during the year

AUDIT COMMITTEE MEETING HELD ON 27 MAY 2020

FINANCIAL AND NARRATIVE REPORTING

- Reviewed the year-end financial statements including key judgements, estimates, assumptions and the going concern and viability statements.
- Considered the content of the Annual Report and Accounts and advised the Board on whether, taken as a whole, the Annual Report and Accounts were fair, balanced and understandable and whether they provided the necessary information for shareholders to assess the Company's position, performance, business model and strategy.
- Discussed the 2019/20 viability statement and going concern assumption with our External Auditor.
- Reviewed a tax report and confirmation of compliance with REIT tax regime.
- Discussed the presentation of the 31 March 2020 portfolio valuation by the independent valuers.
- Considered the proposal for a final dividend.

EXTERNAL AUDIT

- Considered the External Auditor's report on the 2019/20 audit.
- Reviewed letters of representation issued to the External Auditor for the full-year results prior to their being agreed by the Board.
- Reviewed the independence of the External Auditor.
- Held a private meeting with the External Auditor.

GOVERNANCE

- Agreed the narrative of the 2019/20 Audit Committee Report.
- Reviewed the corporate governance sections of the 2020 Annual Report.
- Reviewed the requirement for an internal audit function.

AUDIT COMMITTEE MEETING HELD ON 5 NOVEMBER 2020

- Considered the interim financial results and half-year statements.
- Reviewed and discussed a report from KPMG, summarising their findings arising from the half-year review of the results of the Company for the six months ended 30 September 2020.
- Discussed a report, from Head of Finance, providing a review of the half year accounts.
- Discussed a report from the Chief Financial Officer on the going concern and viability assessment.
- Reviewed letters of representation issued to the External Auditor for the half-year results prior to their being agreed by the Board.
- Reviewed a report on the audit plan and strategy for the year ended 31 March 2021.

- Considered the scope and cost of the external audit for the year ended 31 March 2021.
- Reviewed the materiality threshold for the 2020/21 audit.
- Considered the audit plan and strategy for the year ending 31 March 2021.

- Approved the Committee timetable and planner which detailed the areas of focus for 2020/21.
- Considered the conclusions from the review of effectiveness of the external audit process for the 2020 year-end audit.

AUDIT COMMITTEE MEETING HELD ON 10 MARCH 2021

- Considered a first draft of the Audit Committee Report for the year ended 2021.
- Considered the letter from the FRC and reviewed the Company's response.

- Considered year-end audit plan.
- Reviewed a report on non-audit services and the fees paid to the External Auditor during the last financial year.

- Updated the Committee's Terms of Reference.
- Discussed the non-audit assignments policy.
- Discussed the approach for the externally facilitated Committee effectiveness review.

Risk management and internal control

Before the Risk Committee was established in September 2020, the Audit Committee, at its 27 May 2020 meeting:

- Reviewed the principal and operational risks identified for the Group.
- Discussed a summary of the assurance work undertaken within the financial year.
- Considered the effectiveness of the Company's procedures for preventing fraud.
- Considered an update on health and safety and considered the Health and Safety Policy Statement.
- Considered the need for an internal audit function.

AUDIT, RISK AND INTERNAL CONTROL CONTINUED**AUDIT COMMITTEE REPORT** CONTINUED

External audit

KPMG was appointed as the External Auditor in January 2017 following a formal tender process. At the 2020 AGM, shareholders re-appointed KPMG as the External Auditor of the Group for the year ended 31 March 2021 and authorised the Committee to fix the External Auditor's remuneration. The current lead audit engagement partner, Richard Kelly, is in the fourth year of his term.

Audit fees

Fees payable to the External Auditor for audit and non-audit services are set out in note 2 on page 218. This year, the non-audit services performed by KPMG included:

- the review of the Group's half-year results; and
- provision of a comfort letter in relation to the Group's bond issuance. This work was required to be undertaken by a reporting accountant and we believed that KPMG, as our auditors, were best placed to provide these services.

Audit quality

The Committee has primary responsibility for overseeing the relationship with, and performance of, the External Auditor, in particular with regards to the independence, quality, rigour and challenge of the external audit process. Annually, the Committee assesses the qualifications, expertise, resources and independence of the Group's External Auditor, as well as the effectiveness of the audit process through discussion with the Chief Financial Officer and Head of Finance. The Chair of the Committee also meets with the KPMG Partner.

As part of the effectiveness review, a questionnaire was issued, following the March 2020 year end, to Committee members, as well as regular attendees of the Committee and those involved in the external audit process. Views were also sought from key members of the Finance team and senior management also involved in the external audit process.

Questions were posed around the:

- Effectiveness of the external audit including the quality and scope of the audit plan, reporting and the level of fees for the audit.
- Delivery and execution of the agreed external audit process for the 2019/20 financial year.
- Efficiency and performance of the audit team as well as their technical competence.
- Communication and engagement between the senior management team, the Finance team, KPMG and the Committee.

The Committee discussed a summary of the key findings and results at its meeting in November 2020. No significant concerns were identified.

The Committee's relationship with the External Auditor is one of openness and professionalism, and the results of the review were discussed with KPMG to monitor the continuing quality of audit services.

From its discussions during the year, the challenges presented to the auditors and a review of the reporting received, the Committee considers that the auditor provides appropriate professional challenge and reports its findings in an open and direct manner.

The Committee remains satisfied:

- With the effectiveness of the external audit and the interaction between the auditors and the Committee.
- As to the External Auditor's qualifications, expertise and resources.

Audit independence and objectivity

Furthermore, as part of its deliberations, the Committee reviews a report on the audit firm's own internal quality control procedures together with the policies and processes for maintaining independence and monitoring compliance with relevant requirements.

KPMG LLP has confirmed to the Committee that:

- The audit of the consolidated financial statements is undertaken in accordance with the UK firm's internal policies and procedures.
- It has internal procedures in place to identify any aspects of non-audit work which could compromise its role as auditor and to ensure the objectivity of its audit report.
- It believes that, in their professional judgement, the safeguards they have in place sufficiently guard against the threats to independence.
- The total fees paid by the Group during the year do not represent a material part of its firm's fee income.
- It considers that it has maintained audit independence throughout the year.

The Committee is satisfied that the External Auditor is independent.

The Audit Committee will continue to review the effectiveness and independence of the External Auditor each year.

The Group complies with the Competition and Markets Authority Order 2014 relating to audit tendering and the provision of non-audit services, and it is the Group's intention to put the audit out to tender at least every ten years. The external audit was last tendered in 2017 following which the External Auditor changed from PricewaterhouseCoopers LLP (PwC) to KPMG and there are no current plans to re-tender the services of the External Auditor.

There are no contractual obligations which restrict the Committee's choice of external auditor or which put in place a minimum period for their tenure.

AUDIT, RISK AND INTERNAL CONTROL CONTINUED**AUDIT COMMITTEE REPORT CONTINUED**

Safeguarding auditor independence

NON-AUDIT SERVICES

As required by the Code, the Audit Committee has a formal policy governing the engagement of our External Auditor, KPMG, to supply non-audit services and to assess the threats of self-review, self-interest, advocacy, familiarity and management. KPMG has discontinued the provision of all non-audit services (other than those closely related to the audit) to all FTSE 350 companies, meaning non-audit services will be confined to a more limited scope of work than that defined by the Audit Committee Terms of Reference.

During the year, KPMG were asked to provide additional services in the form of a comfort letter in relation to the Group's issue of the green bond. These services are closely related to the audit and both the services provided and the fees were within the limitations set out in the formal policy.

MANAGEMENT MANAGEMENT THREAT

This occurs when the audit firm performs non-audit services and management make judgements based on that work.

- The Group does not use the External auditor for any services which would be considered management responsibility.

FAMILIARITY A FAMILIARITY THREAT

This is where, due to a long or too close a relationship, the External Auditor's independence is affected.

- The Audit Committee prohibits the hiring of former employees of the External Auditor associated with the Group's audit into management roles with significant influence within the Group within two years following their association with the audit, unless the Chairman of the Audit Committee gives prior consent. Annually, the Audit Committee will be advised of any new hires that fall under this policy. There have been no instances of this occurring to date.
- The Audit Committee monitors on an ongoing basis the relationship with the External Auditor, to check its continuing independence, objectivity and effectiveness by reviewing its tenure, quality and fees.

SELF REVIEW A SELF-REVIEW THREAT

This is where, in providing a service, the external audit team could potentially evaluate the results of a previous service provided by the external audit firm.

- The Group does not use the External Auditor for any services which would involve self-review of their own work.

SELF-INTEREST A SELF-INTEREST THREAT

Where a financial or other interest (of an individual or the external audit firm) could inappropriately influence an individual's judgement or behaviour.

The Audit Committee specifically performs the following:

- If the External Auditor is to be considered for the provision of non-audit services, the scope of work and fees must be approved in advance by the Chief Financial Officer, the Company Secretary and the Chairman of the Audit Committee. For larger assignments, in excess of £100,000, this would involve a competitive tender process, unless there are compelling commercial or timescale reasons to use the External Auditor or another specific accountancy firm.
- The Committee shall review and recommend to the Board the Company's formal policy on the provision of non-audit services by the auditor. Such policy shall specify the circumstances in which prior approval of non-audit services by the Committee is required and specify any internal processes that must be followed.
- It will not accept significant contingent fee arrangements with the External Auditor.

ADVOCACY AN ADVOCACY THREAT

This is where the external audit firm or its personnel promote an audit client's position to the extent where the External Auditor's objectivity is compromised.

- The Group does not use the External Auditor in an advocacy role.

2021 ANNUAL REPORT AND ACCOUNTS - FAIR, BALANCED AND UNDERSTANDABLE

On behalf of the Board, the Committee discussed a report from the CFO and Head of Finance covering the financial statements and whether the Annual Report and Accounts:

- Had clearly reported the impact of Covi-19 on the financial statements
- Provided clear explanations of KPIs and link to strategy
- Explained our business model, strategy and accounting policies simply, using clear language
- Included clear signposts to additional information
- Was in accordance with the information provided to the Board during the year

The Committee considered whether the Annual Report and Accounts:

- was a fair, balanced and an understandable assessment of the Company's position and prospects
- provided the necessary information for shareholders to assess the Group's performance, business model and strategy
- had been written in straightforward language, without unnecessary repetition

The Directors are responsible for preparing the Annual Report and Accounts. The Committee reported that based on its review of the relevant evidence. It was satisfied that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Board's statement on the Annual Report and Accounts is set out in the statement of Directors' responsibilities on page 202.

AUDIT, RISK AND INTERNAL CONTROL CONTINUED**AUDIT COMMITTEE REPORT** CONTINUED

Significant matters considered by the Committee

The Audit Committee considers all financial information published in the full and interim financial statements and considers accounting policies adopted by the Group, presentation and disclosure of the financial information and, in particular, challenging the key judgements made by management in preparing the financial statements.

The Audit Committee pays particular attention to matters it considers to be important by virtue of their impact on the Group's results, or the level of complexity, judgement or estimation involved in their application on the consolidated financial statements. The main areas of focus during the year are set out below:

MATTER CONSIDERED:**ACTION TAKEN BY THE COMMITTEE****VALUATION OF THE INVESTMENT PROPERTY PORTFOLIO**

The valuation of the investment property portfolio is inherently subjective, requiring significant judgement. The outcome is significant for the Group in terms of its investment decisions, results and remuneration, and is a major component of Total Property Return, one of our KPIs.

The valuation is conducted externally by independent valuers, CBRE, one of the world's largest commercial real estate services firms.

CBRE presented the year-end valuation to the Audit Committee, who reviewed the methodology and outcomes of the valuation, challenging the key assumptions and judgements and gave particular focus to any alternative procedures undertaken in light of Covid-19. They also considered the objectivity and independence of the valuers.

KPMG met with the valuers and presented their views on the valuation to the Committee, as well as an explanation for how the valuation is audited. The Committee considered that it was satisfied that the methodology, assumptions and judgements used by the valuers were appropriate, and that the valuations were suitable for inclusion in the financial statements.

In addition, the Audit Committee reviewed a number of other key matters which have been considered by management and discussed with KPMG, including the accounting treatment for discounts and deferrals in the year and uncertainty relating to collection of trade receivables. Further information can be found in the section on principal risks and uncertainties on pages 63 to 70.

Portfolio valuation

Our property portfolio is independently valued twice annually by our external valuers, CBRE Limited.

Our properties are critical to our business and the valuation demonstrates the value that we are delivering to our shareholders. It is a measure of how well we are managing our buildings and driving rental income. Furthermore, the valuation is a significant part of both our net asset value and Total Property Return, which are both key performance indicators.

Given its significance, both management and the Committee monitor the objectivity and independence of the valuers, and review the methodology and outcomes of the valuation, challenging the key assumptions and judgements.

A number of meetings are held between key management and CBRE ahead of the valuation at which the inputs and methodology of the valuation are discussed. Key discussions include:

- London commercial property market: current trends and circumstances expected to affect the market are discussed, including this year the impact of the Covid-19 pandemic.
- Comparable market evidence: recent transactions are considered and compared to assumptions made in valuing our portfolio.
- Development projects: we provide CBRE with any updates to ongoing or future schemes and discuss the assumptions CBRE have made, particularly for more complex schemes where more significant levels of judgement are required.
- Estimated rental values: the estimated rental values proposed by CBRE are discussed and reviewed, with management ensuring that these are in line with our recent rental activity.
- Property information: we provide CBRE with information on any changes to properties that may affect the valuation.
- Other inputs used by the valuers are reviewed and discussed.

The valuation is presented to the Audit Committee, who review the outcomes and challenge the methodology and assumptions.

AUDIT, RISK AND INTERNAL CONTROL CONTINUED

AUDIT COMMITTEE REPORT CONTINUED

Developing a robust Viability Statement

As part of the continued development of the Group's Viability Statement, existing processes were strengthened so that risks were identified, understood and reassessed over the period. The following factors were considered:

- The Group's current financial and operational position and the current economic outlook.
- The Group's cash flows, financing headroom and financial ratios.
- Reassessment of key risks and their potential impact on the business model.

The process we undertook was as follows:

Our Viability Statement

See page 81

Our Going Concern Statement

See page 81

MATTER CONSIDERED:

STAGE 1:

RISK IDENTIFICATION

RESPONSIBILITY:

- Executive Committee.
- Risk Committee.²
- Senior management.¹

STAGE 2:

RISK ASSESSMENT

RESPONSIBILITY:

- Executive Committee.
- Risk Committee.²
- Senior management.¹

STAGE 3:

SCENARIO SENSITIVITY ANALYSIS

RESPONSIBILITY:

- Executive Committee.
- Senior management.¹

STAGE 4:

CONCLUSIONS

RESPONSIBILITY:

- The Board.
- Audit Committee.
- Executive Committee.
- Senior management.¹
- External Auditor.

ACTION TAKEN BY THE COMMITTEE

The strategic and operational risks were reviewed to identify the principal risks to viability over the period under consideration. The risks that would impact solvency and liquidity, either individually or in combination with other risks, were considered.

For each risk, the following were considered:

- Our risk appetite (the level of risk the Board is willing to take)
- The controls in place to mitigate the risk
- The quantum of risk

For those risks identified as being severe enough to impact the viability of the Group, sensitivity analysis was performed to understand the potential impact on liquidity and financial ratios.

The Audit Committee considered the findings from this analysis and presented it to the Board, which was given the opportunity to question the process and findings.

Risk management and internal control

During the year, the Board established a Board Risk Committee. Its members include Damon Russell (Chairman), Chris Girling, Rosie Shapland and Lesley-Ann Nash. The Risk Committee oversees the effectiveness of risk management throughout the organisation, advises the Board on risk appetite, tolerance and strategy and provides recommendations to the Board on the Group's approach to risk management and the effectiveness of the internal control environment (except for financial controls).

Further details of the work of the Risk Committee can be found on page 161.

The Committee remains responsible for oversight and review of controls relating to financial risks and risks relating to finance IT systems. An information flow is maintained between the Audit and Risk Committees to enable each Committee to perform their respective roles.

The Audit Committee has reviewed the Group's system of financial controls during the year with no significant failings or weaknesses identified. However, any such system can only provide reasonable and not absolute assurance against any material misstatement or loss.

Key elements of the Group's system of internal financial controls include:

- A comprehensive system of financial reporting.
- An organisational and management Board structure with clearly defined levels of authority and division of responsibilities.
- An agreed and defined framework of risk, assurance and key performance indicators measuring performance.
- A self-certification programme whereby control owners annually certify whether controls are operating effectively.

During the year, the Audit Committee focused on the extraordinary effects of Covid-19, which posed many new challenges including managing the safety of customers, employees and other stakeholders in line with Government guidelines.

Internal audit

Due to its size, the Group does not have an internal audit function, a matter reviewed by the Audit Committee during the year. The Committee has advised the Board that it considers that there is no need to establish an internal audit function but there is a plan to engage an independent third party to perform reviews of some key areas.

To supplement reviews of risk management and internal control, a programme of operational, facilities management and health and safety reviews will be undertaken across our properties by qualified senior head office personnel. Any significant findings will then be reported to the Risk Committee. Further to this, all key controls are recorded on a central register and control owners are required to certify the effectiveness of controls for which they are responsible and provide details of further actions to address any identified ineffectiveness. No significant issues were identified during the year.

In February 2020 we engaged PwC to conduct a review of the Group's internal audit and risk requirements, and their work has continued during this financial year. Further information on this and the work of the Risk Committee can be found on pages 161 to 166.

Whistleblowing Policy

See page 85

1. Heads of Department.

2. Read about the work of the Risk Committee on pages 161 to 166.