GOVERNANCE

# AUDIT COMMITTEE REPORT

## "Dear Shareholders

**This year we have changed the membership of the Audit Committee with Richard Jewson stepping down and Susanne Given having been appointed in his place. As well as overseeing the yearly audit and half-yearly review, the bi-annual valuations and the Company's risk management, financial reporting and financial management functions, we have also thoroughly reviewed the Committee's terms of reference and other areas of compliance and legislation within the Committee's responsibility."**

## Membership

Jim Prower (Chairman)*

Richard Jewson†, Stephen Smith, Susanne Given**

* Jim Prower, is considered to possess recent and relevant financial experience for the purpose of the AIC Code. Details of Jim Prower's experience can be found in his biography on page 70.

† Richard Jewson, the Chairman of the Board, sat on the Audit Committee to enable his greater understanding of the issues facing the Company; he resigned as a member of the Audit Committee on 13 September 2016 however he is still invited to Audit Committee meetings.

** Susanne Given was appointed to the Audit Committee on 13 September 2016.

## Key focus for 2016

- Recommended to the Board that the Annual Report and Accounts for 2015, taken as whole, were fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's position and performance, business model and strategy;
- Reviewed the Interim Report 2016 and recommended the same to the Board;
- Monitored the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance and reviewed any significant financial reporting judgements contained in them;
- Reviewed the Company's internal financial controls and reviewed the Company's internal control and risk management systems as well as those of the Manager which relate to the Company;
- Reviewed and monitored the independence and objectivity of the Auditor and the effectiveness of the audit process;
- Reviewed and considered the basis of the Viability Statement made by the Directors;
- Developed a policy on the engagement of the Auditor to supply non-audit services including the safeguarding of the Auditor's objectivity and independence; and
- Responded to the letter of 1 July 2016 from the Financial Reporting Council ("FRC") following review of the Company's 2015 Annual Report and Accounts. The FRC deemed all enquiries closed following the response.

## Meeting attendance register

| PERSON | MEETINGS ELIGIBLE TO ATTEND | MEETINGS ATTENDED |
|---|---|---|
| Jim Prower | 4 | 4 |
| Stephen Smith | 4 | 4 |
| Richard Jewson[1] | 3 | 3 |
| Susanne Given[2] | 1 | 1 |

1 Member until 13 September 2016
2 Member from 13 September 2016



Viability Statement p60

**The Audit Committee's role is to oversee the Company's financial reporting process including the risk management and internal financial controls in place within the Manager, the valuation of the property portfolio, the Group's compliance with accepted accounting standards and other regulatory requirements as well as the activities of the Auditors.**

### Committee membership and terms of reference

We operate within defined terms of reference, which are available on the Company's website and on request from the Company Secretary. The terms of reference were reviewed and amended during the year to reflect the changes made to the AIC Code and Guide, legislation and best practice.

The membership of the Committee changed over the course of the year. From 1 January to 13 September 2016, Richard Jewson, the Company's Chairman, was a member together with me and Stephen Smith. Richard Jewson is an independent Director so the Company was compliant with Principle 9 of the AIC Code. However the Committee did not consider that it was following best practice and Richard elected to stand down upon the appointment of Susanne Given to the Committee. Susanne Given has experience of sitting on audit committees in her previous roles. None of the members of the Committee are connected to the Manager or to the Auditor. The biographies of the members can be found on pages 70-71 of this Annual Report.

### Meetings

We met four times during 2016, following the Company's corporate calendar, which ensures that the meetings are aligned to the Company's financial reporting timetable. The Company Secretary ensures that the meetings are of sufficient length to allow the Committee to consider all the matters of importance and the Committee is satisfied that it receives full information in a timely manner to allow it to fulfil its obligations. These meetings are attended by the Committee members, as well as representatives of the Manager, the Company Secretary and the Auditor. The Committee also met with the Company's independent Valuer, CBRE, at the beginning of January 2017 as part of the annual auditing process. I, as the Committee Chairman, have regular meetings with the Company Secretary and the Head of Finance for the Company and additional Audit Committee meetings are convened by the Company Secretary at my request when necessary.

http://tritaxbigbox.co.uk/about/#corporate-governance
The Board of Directors p70-71
Group Statement of Financial Position p105

### External Auditor

During the year we considered at length the appointment, compensation, performance and independence of the Company's external Auditor, BDO LLP ("BDO").

BDO was appointed as the Company's Auditor following a formal tender process as part of the IPO in 2013. Richard Levy has been the lead audit partner since BDO's appointment. During the year we met key members of the audit team and BDO formally confirmed its independence as part of the annual reporting process. We liaise regularly with the lead audit partner to discuss any issues arising from the audit as well as its cost-effectiveness and actively challenge and negotiate the fees payable to the Auditor as well as fees payable to BDO for non-audit services. We meet with the Auditor before the interim and annual results are prepared, to plan and discuss the scope of the audit or review as appropriate, to ensure its rigour. We then meet with the Auditor to discuss the details of the external audit or review and consider and evaluate any findings in depth.

In assessing the performance of the Auditor we consider both the qualifications and expertise of the team proposed by BDO as well as the quality of the work produced and whether it was carried out on time and in accordance with the agreed audit plan. We consider that the Audit team assigned to the Company by BDO has a good understanding of the Company's business which enables it to produce a detailed, high quality in depth audit and permits the team to scrutinise and challenge the Company's financial procedures and significant judgements.

We continue to believe that, in some circumstances, the external Auditor's understanding of the Company's business can be beneficial in improving the efficiency and effectiveness of advisory work. For this reason we continue to engage BDO for the provision of non-audit services, such as routine tax compliance, financial due diligence and reporting accountants services in relation to asset acquisitions and equity raises in the normal course of the Company's business.

We initiated a review of the Company's policy in respect of the engagement of the Auditor for the provision of non-audit services in light of recent changes to legislation made by the EU and the guidance issued by the FRC in respect of the same. We were satisfied that the Auditor should continue to provide these services for financial year ended 2016. The Auditor prepared a matrix at the request of the Audit Committee to allow us to assess the split between audit and non-audit services, as provided by BDO over the past three years. We used this to review the procurement of non-audit services regularly

For further information on Langham Hall UK Depositary LLP, see Depositary Statement p79
Note 15, Notes to the Consolidated Accounts p118

in light of the EU Regulation. In developing this policy, we have considered the Financial Reporting Council's Ethical Standard. We have reviewed the terms under which BDO is able to provide non-audit services and are satisfied with the measures put in place by BDO to preserve the Audit team's independence and to protect the confidentiality of the Company's business. Most notably, tax advice and corporate due diligence are provided by separate teams within BDO and all documents and other information relating to the Company is securely stored and protected. The Board has accepted our proposals relating to the provision of non-audit services by the Auditor. We are therefore satisfied that the Audit is independent, objective and effective.

Since the year end, the Auditor has written to the Company confirming that the provision of any tax compliance services by the Auditor is likely to infringe the EU Directive. The Company will therefore seek to engage separate service providers for audit and tax compliance work in respect of the year commencing 1 January 2017. However the Audit Committee has recommended that a resolution to appoint BDO is proposed to Shareholders at the next AGM.

Of the £424,000 non-audit fees paid to BDO, the expenditure that was authorised in the year is outlined in the table below.

## Risk management and internal controls

As part of each Board meeting and each Audit Committee meeting, the Directors review the financial position of the Company and assess any risks in relation to the Company's business model and the Group's future performance, liquidity and solvency. To facilitate this process the Manager produces financial reports, which include the latest management accounts, a review and report on the Company's financial model, substantiation of any dividend payments and a general update on the financial health of the Company.

A review of the principal business risks of the Company is typically performed bi-annually. A full review of the Company's principal business risks was performed on 30 June 2016 and 6 November 2016. The Company's principal risks can be found on pages 54-59 of the Annual Report.

As the Company's AIFM, the Manager is subject to reporting and ongoing compliance under the AIFMD. As part of this regulatory process, Langham Hall UK Depositary LLP has been retained by the Company and is responsible for cash monitoring, asset verification and oversight of the Company and the Manager. Langham Hall UK Depositary LLP report quarterly to the Board and the Manager. The Manager has, during 2016, appointed a new compliance officer to assist the existing regulatory team with the discharge of the Manager's obligations in accordance with the AIFMD. Please refer to page 79 for a description of Langham Hall UK Depository LLPs role.

The Board considered carefully whether the Company should employ an internal audit function during 2016 and concluded that due to the Company's structure, the nature of its activities and taking into account the controls already in place and, more particularly, the external service already provided by Langham Hall UK Depositary LLP, an internal audit function is not necessary. As part of the internal risk review we identified that whilst the Administrator has its own internal audit performed on an annual basis, from which the Company

| WORK UNDERTAKEN | RATIONALE FOR USING THE EXTERNAL AUDITOR | FEE (£) |
|---|---|---|
| **Reporting accountant on the Company's secondary offerings** | Detailed knowledge and understanding of the business and the requirements of the exercise, having acted as reporting accountant on previous equity fundraisings for the Company. Low risk of self-interest and self-review threat, as the work is not used in the audit of the financial statements. | £140,000 |
| **Financial and tax due diligence on corporate acquisitions** | Detailed knowledge and understanding of the business and the requirements of the exercises. The work was performed by a team independent of the audit team. The audit team places no reliance on these procedures. | £86,000 |
| **Tax advisory and compliance** | Detailed knowledge and understanding of the business and the requirements of the exercises. The work was performed by a team independent of the audit team. The audit team places no reliance on these procedures. | £198,000 |



Our Principal Risks and Uncertainties p54-59
Depositary Statement p79

reviews any findings and takes particular comfort, the Company should also independently assess whether these controls are sufficient and if they operate effectively. To this end, we have recommended to the Board that an independent internal audit is performed to review the processes and procedures in place at the Administrator and this will be undertaken during 2017.

### Financial reporting and significant judgements

We monitor the integrity of the financial information published in the interim and annual financial statements and consider whether the Manager has made suitable and appropriate estimates and judgements in respect of areas which could have a material impact on the financial statements. We seek support from the external Auditor to assess these significant judgements. We also consider the processes undertaken by the Manager to ensure that the financial statements are fair, balanced and understandable.

A variety of financial information and reports were prepared by the Manager and provided to the Board and to the Audit Committee, over the course of the year. These included, budgets, periodic re-forecasting and specific papers on the change in dividend policy from bi-annual to quarterly; a review as to the Company's ability to continue to pay a progressive dividend and a review of the Company's debt arrangements. This financial information was fully reviewed and debated both at Committee and Board level.

The Manager and the Auditor update us on changes to accounting policies, legislation and best practice and areas of significant judgement by the Manager. They pay particular attention to transactions which they deem important due to size or complexity. The main areas where a significant judgement is required include the assessment over fair values of investment property and interest rate derivatives, business combinations, and operating lease contracts.

### Business combinations

At the time of acquiring a subsidiary that owns investment properties, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. Where the acquisitions are not judged to be the acquisition of a business, they are not treated as business combinations.

### Operating lease contracts

The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all significant risks and rewards of ownership of its properties and so accounts for the leases as operating leases.

### Valuation of property portfolio

Following production of the draft valuation by CBRE, the Manager meets with CBRE to discuss and challenge various elements of the property valuation. The Auditor, in fulfilling its function as independent auditor to the Company, also meets with CBRE to discuss and where necessary challenge the property valuations. The Board receives a copy of the valuation once it has been tested by the Manager and after the Auditor has met with the Valuer. The Board also met with the Valuer in January 2017 to discuss and challenge the valuation and to ensure it was conducted properly and could be fully supported. The property portfolio is valued by CBRE bi-annually. The performance of CBRE is assessed on an annual basis by the Management Engagement Committee in their report on page 85.

The Group had property assets of £1.80 billion at 31 December 2016, as detailed on the Group Statement of Financial Position. As explained in note 15 to the financial statements, CBRE independently valued the properties in accordance with IAS 40: Investment Property. The total portfolio valuation including forward funded commitments at the year end was £1.89 billion. We have reviewed the assumptions underlying the property valuations and discussed these with the Manager, and have concluded that the valuation is appropriate.

Management Engagement Committee Report p85-87
Group Statement of Financial Position p105

### Valuation of interest rate derivatives

The Group mitigates its exposure to interest rate risk by entering into interest rate hedging arrangements. The Group accounts for these instruments in accordance with IAS 39 and makes additional required disclosures under IFRS 7 Financial Instruments Disclosures and IFRS 13 Fair Value Measurement. The valuations are provided by the relevant institutions to which the loans are hedged. The Board has reviewed and approved these valuations.

### Financial Reporting Council letter of 1 July 2016

I received a letter from the FRC on 1 July 2016 raising enquiries into the way in which the Company reported certain financial information in its Annual Report and Accounts for the year ended 31 December 2015. We answered these queries in a letter on 27 July 2016 to the satisfaction of the FRC and all enquiries into the Company's Annual Report and Accounts for the year ended 31 December 2015 are closed although we have subsequently improved certain disclosures.

### Scope and limitations of the FRC review

The FRC's review was based upon the 2015 Annual Report and Accounts and does not benefit from a detailed knowledge of our business or understanding of the underlying transactions entered into. The correspondence does not indicate that the Annual Report and Accounts are correct in all material respects.

### Fair, balanced and understandable financial statements

The production and audit of the Company's Annual Report is a comprehensive process, requiring input from a number of contributors. To reach a conclusion on whether the Company's financial statements are fair, balanced and understandable, as required under the AIC Code, the Board has requested that the Audit Committee advise on whether we consider that the Annual Report fulfils these requirements. In outlining our advice, we have considered the following:

- the comprehensive documentation that outlines the controls in place for the production of the Annual Report, including the verification processes to confirm the factual content;
- the detailed reviews undertaken at various stages of the production process by the Manager, Administrator, Joint Financial Advisers, Auditor and the Audit Committee, which are intended to ensure consistency and overall balance;
- controls enforced by the Manager, Administrator and other third-party service providers, to ensure complete and accurate financial records and security of the Company's assets;
- the satisfactory ISAE 3402 control report produced by the Administrator for the year ended 31 December 2016, which has been reviewed and reported upon by the Administrator's external auditor, to verify the effectiveness of the Administrator's internal controls; and
- a letter provided by the Administrator that there have been no changes to its control environment since 31 December 2016 and that all internal controls in place a at the time of the last review remain active.

As a result of the work performed, we have concluded and reported to the Board that the Annual Report for the year ended 31 December 2016, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy. The Board's conclusions in this respect are set out in the Directors' Responsibilities Statement.

**Jim Prower Chairman of the Audit Committee**
7 March 2017