

# REPORT OF THE AUDIT COMMITTEE

## Membership

The Committee is chaired by Stephen Young. Stuart Corbyn, Robert Farnes and June de Moller served on the Committee throughout the year and Simon Fraser joined on 1 September 2012. Robert Farnes will step down from the Committee after the Group's AGM in May 2013. All members are considered independent by the Board, having no day-to-day involvement with the Company. Stephen Young is a qualified accountant and is considered to have appropriate recent and relevant financial experience. The Committee has access to further financial expertise at the Company's expense, if required.

## Roles and responsibilities

The terms of reference for the Committee are available on the Company's website.

## Meetings

The Committee met four times during the year to discharge its responsibilities. Meetings are attended by the Group's external auditor, independent property valuers (CBRE) and members of the Group's senior management when invited.

## Work of the Committee

During the year, the Committee has carried out the following:

- Reviewed the terms of reference for the Committee ensuring that they correctly reflect the change in responsibilities now that a Risk Committee had been established.
- Reviewed the Group's interim and annual financial statements and the published interim management statements considering whether, taken as a whole, they were fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's performance, business model and strategy.

In assessing this requirement, and subsequently reporting to the Board, the committee had regard to the following:

- The adequacy of the systems and controls that exist for bringing all the relevant information to the attention of the preparers of the report and accounts.
- The adequacy of the procedures for obtaining sufficient assurance over the accuracy of the information.
- Whether the reports were consistent throughout and with each other and in accordance with the information provided to the Board during the year.
- Considered the appropriateness of the accounting policies, assumptions, judgements and estimates used in the preparation of the financial statements.

In discharging this responsibility the Committee identified two significant issues which are set out below together with an explanation of how each was addressed:

- Valuation of the Group's property portfolio  
The Committee includes members who have relevant and current expertise in property valuation and these Directors led two meetings with the Group's external valuer, one before the interim results and another before the final results, at which the portfolio valuation was reviewed on a property by property basis.

The Committee also requested that the external auditor focus on this area and report to the Committee on the procedures they carried out and the results thereof.

- Accounting controls  
In the absence of an internal audit function the Committee looks for external assurance on the operation of controls over certain parts of the business. This is achieved by instructing third parties (which may include the external auditor) to review the control environment in a particular area.
- Assessed the effectiveness of the external audit  
In carrying out this task the Committee took into account the views of both management and the auditor and reviewed the content of the management letter issued by the external auditor together with the responses of management to the comments made therein.
- Considered the adequacy of the Group's procedures for safeguarding the objectivity and independence of the external auditor.

In assessing this matter the Committee noted the following:

- Each year the auditor issues the Committee with an Independence Letter which confirms their independence and compliance with the Auditing Practices Board (APB) Ethical Standards. This is provided after the auditor has considered the following matters:
  - The level of the audit fee.
  - The nature of other services provided to the Group and the fees derived from them.
  - The existence and influence of any associated parties.
  - The duration of the appointment both of the audit firm and of any individuals involved on the audit.
  - Any participation in client affairs.
  - Any financial relationships including share ownership.
  - Any threatened or actual litigation involving the client.
- The Company operates a policy under which the auditor cannot be appointed for any non-audit work where the fee exceeds £25,000 without the appointment being approved by the Audit Committee.
- Considered the implication of the new requirement to put the external audit out to tender at least every 10 years. Having regard to the transitional measures proposed by the FRC the Committee currently plans to put the audit of the Group out to tender when the current audit partner reaches the end of his five-year term in 2014. BDO have been the Company's auditor since 1985.
- Reviewed the scope of the annual audit and the level of associated fees and considered the conduct of the audit before recommending the re-appointment of the Group's external auditor.
- Considered the need for an internal audit function and concluded that one was not needed given the scale and complexity of the business.
- Noted that the accounts for the Group's pension schemes had been audited and no matters raised.

**Stephen G. Young**  
**Chairman of the Audit Committee**  
28 February 2013