

Audit and Risk Committee report

Composition and designation

The Audit and Risk Committee ("the Committee") comprises Matthew Thorne as Chair, Hazel Adam, Elizabeth McMeikan and Chris Ireland, all of whom are independent Non-Executive Directors. On 1 January 2021 Barry Gilbertson retired as a Director of the Company and left the Committee. On 1 April 2021 Elizabeth McMeikan and Chris Ireland became Directors of the Company and were appointed to the Committee.

Responsibilities

The Committee meets regularly to monitor the integrity of the Company's financial statements and to ensure they present a fair, balanced and understandable assessment of the Company's position and prospects in line with principle N of the Code. The Committee is also responsible for the appointment, performance and independence of the external auditor and the programme of work and reports of the internal auditor in line with principle M of the Code. In providing support to the Board in making this statement, the Committee has reviewed and approved a process undertaken by the Investment Manager to provide confirmation to the Board.

The Committee operates under written terms of reference which are available on the Company's website.

The key responsibilities and principal activities of the Committee are as follows:

- To monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, and review significant financial reporting judgements contained in them;
- To advise the Board on whether the Interim Report, Annual Report and financial statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model, strategy, risks, working capital requirements and longer-term viability;
- To advise the Board on whether the Investment Manager's working capital review supports assertions made in the Annual Report regarding going concern and longer-term viability;
- To monitor and review the effectiveness of the Company's internal control environment and monitoring processes, which were in place for the year under review and up to the date of approval of these financial statements;
- To review the significant risks faced by the Company;
- To review the internal audit programme and monitor the effectiveness of the internal audit process by reviewing reports, meeting with the internal auditor and identifying any matters it considers need action or improvement, making recommendations as to the steps to be taken;
- To make recommendations to the Board to be put to shareholders for their approval in general meeting in relation to the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- To review the appointment of the external auditor, monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- To develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- To agree the scope of statutory audit work and any additional assurance work to be undertaken;
- To take an active part in discussions between the external auditor and the Investment Manager regarding the resolution of issues that impact the audited financial statements; and
- To have the opportunity to meet with the external property valuers at least once a year, to discuss the valuers' remit and any issues arising from the valuations.

The Committee also oversees and approves the calculation of fees payable to the Investment Manager set out in Note 18.

Meetings

The Committee meets no less than three times a year, typically in May to consider the Annual Report and external audit findings, in November to consider the Interim Report, interim announcement and external review findings, and in January to plan for the financial year ahead. Any other matters, including internal controls, are considered as and when necessary.

Meetings are attended by the Committee members, the Investment Manager, the external auditor and, periodically, the internal auditor. The Committee allows time to speak with the external auditor and internal auditor without the Investment Manager present for at least one meeting each year.

Primary areas of judgement in relation to the Annual Report and financial statements

The Committee considers the significant judgements made in the Annual Report and financial statements and receives reports from the Investment Manager and the external auditor on those judgements. The Committee pays particular attention to the matters it considers to be important by virtue of size, potential impact, complexity and level of judgement.

The principal issue considered by the Committee for the year was the valuation of the Company's property portfolio, which is fundamental to the Company's statement of financial position and reported results. The external auditor met with the valuers separately from the Audit and Risk Committee, using real estate specialists where applicable, and reported back to the Committee on its review. The Committee also gained comfort from the valuers' methodology and other supporting market information.

The Committee also reviewed the reports of the internal auditor and considered how best to resource the internal audit function. During the year, the internal auditor has reported on the design effectiveness and operational effectiveness of the internal control environment.

Loan covenant and REIT regime compliance are matters for the whole Board. The Company's assessment of the impact of the COVID-19 pandemic on the Company's loan covenant compliance is set out in the Principal risks and uncertainties section of the Strategic report. The Committee has considered reports to support the Company's REIT regime compliance, going concern status and longer-term viability statement, along with details of available undrawn facilities and financial forecasts.

The Committee was satisfied that these issues had been fully and adequately considered and addressed and that the judgements made were appropriate. The Committee discussed the issues with the external auditor, who had concurred with the judgement of the Investment Manager.

Audit

The Company's day-to-day operations are contracted to the Investment Manager. The Company's internal audit function, which assesses the systems and control framework of the Investment Manager and its parent company, Mattioli Woods, is carried out by RSM. The Committee agrees an appropriate annual internal audit programme with the Investment Manager, taking into consideration the current size of the Company and its relative lack of business complexity, and reviews the reports of the internal audit function.

The external audit, review of its effectiveness, auditor reappointment and audit tendering

The Committee reviews annually the external auditor's:

- Appointment;
- Relationship with the Company;
- Level of effectiveness;
- Audit and non-audit fees; and
- Independence.

The Committee notes the continuing engagement of Deloitte LLP ("Deloitte") as auditor of Mattioli Woods and of the Investment Manager but considering the separate Deloitte teams involved and the measures that Deloitte takes to ensure separation and independence of the teams, it is not deemed a conflict.

The Committee uses a framework to assess the effectiveness of the audit approach and considered the views of the Investment Manager. This framework includes:

- The auditor confirming its independence and compliance with the FRC's Ethical Standard and the Company's policy for the supply of non-audit services;
- How the auditor demonstrated professional scepticism and challenged assumptions where necessary; and
- Assessment of Deloitte's audit quality.

In assessing how the auditor demonstrated professional scepticism and challenged assumptions, the Committee considered the depth of discussions held with the auditor, particularly in respect to challenging the Company's approach to its significant judgements and estimates (set out in the Strategic report). The Committee was satisfied that a summary of findings from the Financial Reporting Council ("FRC") report on Audit Quality Inspections in July 2020 supported Deloitte's capability. After taking these matters into account, the Committee concluded that Deloitte had performed the audit effectively, efficiently and to a high quality.

Fees incurred by the Company from Deloitte during the year were as follows:

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Audit of the Company's Annual Report	106	96
Total audit related fees	106	96
Review of the Company's Interim Report	20	18
Other non-audit services	-	8
Total non-audit fees	20	26
Total fees	126	122

Other non-audit services relate to administrative assistance regarding Board effectiveness reviews.

Audit and Risk Committee report continued

Audit continued

Non-audit fees

A non-audit fee policy has been adopted by the Committee, which considers the appointment of the external auditor for non-audit work, after taking into account their suitability to perform the services, the potential impact on their independence and objectivity and the relationship of non-audit to audit fees. Fees for permissible non-audit fees payable to the external auditor are capped at 70% of the average audit fee over the three preceding financial years (or from appointment, if later) in line with the FRC's Revised Ethical Standard 2019. Where there are any doubts as to whether the external auditor has a conflict of interest, Committee approval is required in advance of the engagement.

Given the external auditor's detailed knowledge of the structure of the organisation, certain recurring services provided by them, subject to the amount of fee involved, are not considered to impair the external auditor's independence or objectivity. Services included in this category are: accounting advice, compliance and regulatory certificates and minor projects, where the fee involved per service will not exceed £10,000 without the prior consent of the Committee.

Other than the review of the Interim Report, the Committee will not normally allow the external auditor to be used for the following: tax services; compiling accounting records; payroll services; work on internal controls; valuation work; legal services; internal audit services; corporate finance services; share brokerage or human resources. Non-audit fees incurred during the year related to a review of Board effectiveness.

The Committee has reviewed the level of fees due to Deloitte for permitted non-audit services and is satisfied the independence and objectivity of Deloitte as the Company's auditor is not impaired.

As a 'public interest entity', the Company is required at the latest to re-tender the external audit by 2024 and rotate audit firms by 2034. The Committee intends to re-tender the external audit within the timeframe set by the Financial Reporting Council and adopt its specific requirements for the tendering process.

Deloitte has confirmed its willingness to continue in office and ordinary resolutions reappointing Deloitte as auditor and authorising the Committee to set the auditor's remuneration will be proposed at the AGM.

Approval

This report was approved by the Committee and signed on its behalf by:

Matthew Thorne

Chair of the Audit and Risk Committee

15 June 2021