



**Custodian REIT Plc**

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**Terms of Reference: Audit Committee**

**Updated 31 May 2018**

## **1. Definitions**

In these terms of reference, the following words and expressions have the following meanings:

- 1.1 “**Board**” means the board of directors of the Company;
- 1.2 “**Code**” means the UK Corporate Governance Code published by the Financial Reporting Council;
- 1.3 “**Company**” mean Custodian REIT Plc;
- 1.4 “**Committee**” means the Audit Committee of the Company;
- 1.5 “**Director**” means a director of the Company;
- 1.6 “**Investment Manager**” means Custodian Capital Limited; and
- 1.7 “**Non-Executive Director**” means a non-executive director of the Company.

## **2. Membership**

- 2.1 The initial members of the Committee shall be Matthew Thorne (Chairman), Barry Gilbertson and David Hunter.
- 2.2 The Committee shall comprise at least two Directors. Members of the Committee shall be appointed by the Board.
- 2.3 All members of the Committee shall be independent Non-Executive Directors at least one of whom shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies. The Chairman of the Board may be a member of, but not chair, the Committee provided he is independent on appointment as Chairman.
- 2.4 Only members of the Committee have the right to attend Committee meetings. However, others may be invited to attend meetings of the Committee on a regular basis (e.g. the external auditors) and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 2.5 Appointments to the Committee shall be for a period of up to three years, extendable by no more than two additional three-year periods, so long as members continue to be independent.
- 2.6 The Board shall appoint the Committee Chairman. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

## **3. Secretary**

The Company secretary or his nominee shall act as the secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

## **4. Quorum**

The quorum necessary for the transaction of business shall be two members.

## **5. Frequency of meetings**

- 5.1 The Committee shall meet at least twice a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 5.2 Outside of the formal meeting programme, the Committee Chairman will maintain a dialogue with key individuals involved in the Company's governance, including the Board Chairman and the external audit lead partner.

## **6. Notice of meetings**

- 6.1 Meetings of the Committee shall be convened by the secretary of the Committee at the request of any of its members or at the request of the external audit lead partner if they consider it necessary.
- 6.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other Non-Executive Directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

## **7. Minutes of meetings**

- 7.1 The secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- 7.2 The Secretary should ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. Minutes of Committee meetings shall be circulated promptly, within ten working days, firstly to the Chairman and then to the Investment Manager, to all members of the Committee and, once agreed, to all members of the Board at the next Board meeting.

## **8. Annual General Meeting**

The Committee Chairman should attend the Annual General Meeting of the Company to answer shareholder questions on the Committee's activities.

## **9. Duties**

### **9.1 Financial reporting**

- (a) The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, and any other formal announcement relating to its financial performance, review and report to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor.
- (b) In particular, the Committee shall review and challenge where necessary:
  - (i) the consistency of, and any changes to, significant accounting policies both on a year on year basis and (as applicable) across the Company's group;

- (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (iii) the basis of any valuation of the Company's property portfolio;
  - (iv) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - (v) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
  - (vi) all material information presented with the financial statements, such as the corporate governance statements relating to the audit and to risk management.
- (c) Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

## 9.2 **Narrative reporting**

Where requested by the Board, the Committee should review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

## 9.3 **Internal controls and risk management systems**

The Committee shall:

- (a) keep under review the adequacy and effectiveness of the Company's internal audit function (or appointed administrator), internal financial controls and internal control and risk management systems;
- (b) liaise with the Investment Manager's internal audit function directly regarding any control or risk management issues affecting the Company;
- (c) review and approve the statements to be included in the annual report concerning internal controls and risk management;
- (d) review and approve statements explaining how assets have been invested with a view to spreading investment risk;
- (e) liaise with the Board and the Company's management engagement committee and ensure that other statements regarding the Company's Investment Manager, including relevant details of its remuneration and appointment and its continued appointment are, included in the annual report; and
- (f) ensure that the annual report includes:
  - (i) the full text of the Company's published investment policy;
  - (ii) a detailed and meaningful analysis of the Company's investment portfolio; and

- (iii) a summary of the valuation of its portfolio made in accordance with the Listing Rules published by the Financial Conduct Authority.

#### 9.4 External Audit

The Committee shall:

- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the Company's Annual General Meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- (b) ensure that at least once every ten years the audit services contract is put out to tender to enable the committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;
- (c) if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (d) oversee the relationship with the external auditor including (but not limited to):
  - (i) recommendations on their remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (iii) assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
  - (iv) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
  - (v) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
  - (vi) assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
  - (vii) seeking to ensure co-ordination with the activities of the internal audit function; and

- (viii) evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their auditor from the market in that evaluation.
- (e) meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without any representatives of the Investment Manager being present, to discuss the auditor's remit and any issues arising from the audit;
- (f) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- (g) review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
  - (i) a discussion of any major issues which arose during the audit;
  - (ii) key accounting and audit judgements;
  - (iii) any valuation issues regarding the Company's property portfolio;
  - (iv) levels of errors identified during the audit; and
  - (v) the effectiveness of the audit process;
- (h) review any representation letter(s) requested by the external auditor before they are signed;
- (i) review the management letter and management's response to the auditor's findings and recommendations; and
- (j) develop and implement policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.

## **10. Property Valuation**

The Committee shall:

- 10.1 Have the opportunity to meet with the external property valuer at least once a year, to discuss the valuer's remit and any issues arising from the valuation.

## **11. Reporting responsibilities**

- 11.1 The Committee Chairman shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also report to the Board on how it has discharged its responsibilities. This report shall include:
  - (a) the significant issues that it considered in relation to the financial statements (required under paragraph 9.1(a)) and how these were addressed;

- (b) its assessment of the effectiveness of the external audit process (required under paragraph 9.4(d)(vi)) and its recommendation on the appointment or reappointment of the external auditor;
  - (c) any matters in relation to the development and implementation of policy on the engagement of the external auditors to supply non-audit services in respect of which the Committee considers that action or improvement is needed and recommendations as to the steps to be taken; and
  - (d) any other issues on which the Board has requested the Committee's opinion.
- 11.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 11.3 The Committee shall compile a report on its activities to be included in the Company's annual report. The report should include an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor; and all other information requirements set out in the Code.
- 11.4 In compiling the reports referred to in paragraphs 11.1 and 11.3, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern, and the Board's reasonable expectation of business viability, presented in the Long Term Viability Statement. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

## **12. Other matters**

The Committee shall:

- 12.1 have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;
- 12.2 give due consideration to laws and regulations, the provisions of the Code and the requirements of the Financial Conduct Authority, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate;
- 12.3 be responsible for co-ordination of the external auditors;
- 12.4 oversee any investigation of activities which are within its terms of reference;
- 12.5 work and liaise as necessary with all other board committees and in particular the Management Engagement Committee; and
- 12.6 arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board.

**13. Authority**

The Committee is authorised to:

- 13.1 seek any information it requires from the property Investment Manager in order to perform its duties;
- 13.2 obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so within its terms of reference;
- 13.3 call on the property Investment Manager to be questioned at a meeting of the Committee as and when required; and
- 13.4 have the right to publish in the Company's annual report, details of any issues that cannot be resolved between the Committee and the Board.

***Date of adoption of terms by the Board***

**31 May 2018**

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Chairman