

## **CAPITAL & COUNTIES PROPERTIES PLC**

### **TERMS OF REFERENCE OF THE AUDIT COMMITTEE**

#### **1. Constitution**

- 1.1 The Audit Committee is a committee of the Board of Directors of Capital & Counties Properties PLC ("**Capital & Counties**") and answerable to the Board. The Audit Committee reports to and, within its remit, acts on behalf of the Board. Its existence does not increase or reduce the responsibility of any of the Directors of the Company. The meetings, proceedings, and recording of the Audit Committee's deliberations shall be governed by the applicable Regulations in Capital & Counties Articles of Association.

These Terms of Reference were approved and adopted by resolution of the Board dated 29 November 2018, amended by resolutions of the Board dated 3 May 2019 and 10 August 2020.

#### **2. Membership**

- 2.1 The Committee shall comprise at least three members. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Audit Committee.
- 2.2 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 Committee as a whole shall have competence relevant to the sector in which the Company operates. The Chairman of the Board shall not be a member of the Committee. The current members of the Committee are Mr Steains (Chairman of the Committee), Ms Boyle and Mr Lane.
- 2.3 Only members of the Committee have the right to attend Committee meetings. However, the external auditor, internal auditor, Chief Executive, Chief Financial Officer and Financial Controller will be invited to attend meetings of the Committee on a regular basis, the other Directors have a standing invitation to attend meetings if they wish and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 2.4 Appointments to the Committee shall be for a period of up to three years ordinarily extendable by no more than two additional three-year periods, so long as members continue to be independent.
- 2.5 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.
- 2.6 At the beginning of any meeting, each Director should declare to the Secretary the existence of any conflict of interest affecting him in respect of any matter to be discussed and should absent himself from any discussion of any such matter.

#### **3. Secretary**

- 3.1 The Company Secretary, or his or her 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**

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

## **5. Frequency of meetings**

- 5.1 The Committee shall meet at least three times 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, the Chief Executive, the Chief Financial Officer, the external audit lead partner and the internal auditor.

## **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, internal auditor or the Board 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 and any other person required to attend, 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 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee and submitted to the Board of Directors at the next following Board meeting unless it would be inappropriate to do so in the opinion of the Committee Chairman.

## **8. Annual general meeting**

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

## **9. Duties**

The Committee should carry out the duties below for the parent Company, major subsidiary undertakings and the group as a whole, as appropriate.

### **9.1 Financial reporting**

- 9.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, preliminary announcements and any other formal announcements relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor.
- 9.1.2 In particular, the Committee shall review and challenge where necessary:
  - 9.1.2.1 the consistency of, and any changes to, significant accounting policies both on a year on year basis and across the Company/Group;
  - 9.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
  - 9.1.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

9.1.2.4 the valuations prepared by the Company's valuers;

9.1.2.5 the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and

9.1.2.6 all material information presented with the financial statements, such as the strategic report and the corporate governance statements relating to the audit and to risk management.

9.1.3 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 and where it informs the Board's statement in the annual report on these matters as is required pursuant to the UK Corporate Governance Code.

## 9.3 Internal controls and risk management systems

The Committee shall:

9.3.1 keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems;

9.3.2 review and approve the statements to be included in the annual report concerning internal controls and risk management; and

9.3.3 keep under review generally the quality and integrity of reporting throughout the group but particularly in the Finance functions, and any Internal Audit function.

## 9.4 Compliance, whistleblowing and fraud

The Committee shall:

9.4.1 review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;

9.4.2 review the Company's procedures for detecting fraud;

9.4.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance; and

9.4.4 Consider the primary findings of any relevant internal investigations into control weaknesses, fraud or misconduct and Management's response (in the absence of Management where necessary).

## 9.5 Internal audit

The Committee shall:

9.5.1 approve the appointment or termination of appointment of the internal auditor;

- 9.5.2 ensure the internal auditor has the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication with the internal auditor, and that the internal auditor performs in accordance with appropriate professional standards for internal auditors;
- 9.5.3 ensure the internal auditor has direct access to the Board Chairman and to the Committee Chairman, and is accountable to the Committee;
- 9.5.4 review and assess the annual internal audit work plan;
- 9.5.5 receive a report on the results of the internal auditor's work on a periodic basis;
- 9.5.6 review and monitor management's responsiveness to the internal auditor's findings and recommendations and support the effective working of the internal auditor;
- 9.5.7 meet with the internal auditor at least once a year without the presence of management; and
- 9.5.8 monitor and review the effectiveness of the Company's internal audit function, in the context of the Company's overall risk management system and the work of the external auditor;

## 9.6 External audit

The Committee shall:

- 9.6.1 consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- 9.6.2 ensure that at least once every ten years the audit services contract is put out to tender, in accordance with applicable UK Corporate Governance Code and regulatory requirements, 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;
- 9.6.3 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 9.6.4 oversee the relationship with the external auditor including (but not limited to):
  - 9.6.4.1 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;
  - 9.6.4.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 9.6.4.3 assessing annually their independence and objectivity taking into account relevant UK law, regulation, the Ethical Standard and other professional requirements and the relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguard applied to mitigate those threats, including the provision of any non-audit services;
  - 9.6.4.4 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;

- 9.6.4.5 agreeing with the Board a policy on the employment of former employees of the Company's auditor, taking into account the Ethical Standard and legal requirements, and monitoring the implementation of this policy;
- 9.6.4.6 monitor the auditor's processes for maintaining independence, its compliance with relevant UK law, regulation, other professional requirements and the Ethical Standard, including the guidance on the rotation of audit partner and staff;
- 9.6.4.7 monitor the external audit firm's compliance with the Ethical Standard, the level of fees that the company pays in proportion to the overall fee income of the firm, or relevant part of it, and assess in the context of relevant legal, professional and other related regulatory requirements;
- 9.6.4.8 assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process including an assessment of the quality of the audit, the handling of key judgements by the auditor, the auditor's response to questions from the committee and a report from the external auditor on their own internal quality control procedures and annual transparency reports;
- 9.6.4.9 seeking to ensure co-ordination with the activities of the internal audit function; and
- 9.6.4.10 evaluating the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee.
- 9.6.4.11 develop and recommend to the board the company's formal policy on the provision of non-audit services by the auditor, including approval of non-audit services by the committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:
  - 9.6.4.10.1 threats to the independence and objectivity of the external auditor and any safeguards in place;
  - 9.6.4.10.2 the nature of the non-audit services;
  - 9.6.4.10.3 whether the external audit firm is the most suitable supplier of the non-audit service;
  - 9.6.4.10.4 the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
  - 9.6.4.10.5 the criteria governing compensation;
- 9.6.5 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 management being present, to discuss the auditor's remit and any issues arising from the audit;
- 9.6.6 discuss with the external auditor the factors that could affect audit quality and 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; and
- 9.6.7 review the findings of the audit with the external auditor.

This shall include but not be limited to, the following:

- 9.6.7.1 a discussion of any major issues which arose during the audit;

- 9.6.7.2 the auditor's explanation of how the risks to audit quality were addressed;
- 9.6.7.3 key accounting and audit judgements;
- 9.6.7.4 the auditor's view of their interactions with senior management;
- 9.6.7.5 levels of errors identified during the audit; and

The Committee shall also:

- 9.6.8 review any representation letter(s) requested by the external auditor before they are signed by management;
- 9.6.9 review the management letter and management's response to the auditor's findings and recommendations; and
- 9.6.10 review the effectiveness of the audit process, including an assessment of the quality of audit, the handling of key judgements by the auditor, and the auditor's response to questions posed by the Committee.

## 9.7 Policies

The Audit Committee shall review the following documents and policies annually and make recommendations to the Board on any proposed changes:

- Policies relating to transactions in Group securities by Directors and staff, with particular reference to confidentiality, compliance with The Market Abuse Regulations, and the avoidance of insider dealing and market abuse.

## 10. **Reporting responsibilities**

- 10.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include, as appropriate:
  - 10.1.1 the significant issues that it considered in relation to the financial statements (required under paragraph 9.1.1) and how these were addressed;
  - 10.1.2 its assessment of the independence and effectiveness of the external audit process (required under paragraph 9.6.4.8) and its recommendation on the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans; and
  - 10.1.3 any other issues on which the Board has requested the Committee's opinion.
- 10.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.3 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; an explanation of how auditor independence and objectivity are safeguarded if the external auditor provides non-audit services, 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 UK Corporate Governance Code..

- 10.4 In the compiling the reports referred to in 10.1 and 10.3, 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 inputs to the Board's 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.

## **11. Other matters**

The Committee shall:

- 11.1 have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
- 11.2 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 11.3 give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the Financial Conduct Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, including those of the JSE, as appropriate;
- 11.4 be responsible for oversight of the co-ordination of the internal and external auditors;
- 11.5 oversee any investigation of activities which are within its terms of reference;
- 11.6 work and liaise as necessary with all other Board Committees;
- 11.7 consider such other topics as may be identified and allocated to it by the Board;
- 11.8 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.

## **12. Authority**

The Committee is authorised to:

- 12.1 seek any information it requires from any employee of the Company in order to perform its duties;
- 12.2 obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
- 12.3 call any employee to be questioned at a meeting of the Committee as and when required; and
- 12.4 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. If the Board has not accepted the Committee's recommendation on the external auditor appointment, reappointment or removal, the annual report should include a statement explaining the Committee's recommendation and the reasons why the Board has taken a different position.

**August 2020**