



# LAND SECURITIES GROUP PLC

## AUDIT COMMITTEE

Approved by the Board on 20 March 2019

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## LAND SECURITIES GROUP PLC

### AUDIT COMMITTEE - TERMS OF REFERENCE

**Note:** References to “the Committee” shall mean the Audit Committee; references to “the Board” shall mean the Board of Directors; references to “the Company” shall mean Land Securities Group PLC; references to “the Group” shall mean the Company and its subsidiaries; and references to “the Directors” shall mean the Directors of the Company.

#### **1 Purpose**

- 1.1 The primary function of the Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring the integrity of the financial information provided to shareholders, the Company’s system of internal controls and risk management, the internal and external audit process and auditors, the process for compliance with laws, regulations and ethical codes of practice and the external asset valuation process and methodology.
- 1.2 The Committee aims to satisfy itself that the sources of assurance and information it has used to carry out its roles to review, monitor and provide assurance or recommendations to the Board in respect of 1.1 above are sufficient and objective.

#### **2 Membership**

- 2.1 The Committee is established as a Committee of the Board and shall consist of a Chairman and at least two other members. Members of the Committee, all of whom will be independent Non-Executive Directors, shall be appointed by the Board on the recommendation of the Nominations Committee in consultation with the Committee Chairman. The Chairman of the Board shall not be a Committee member.
- 2.2 At least one member of the Committee shall have recent and relevant financial experience, ideally with a professional qualification from one of the professional accountancy bodies and experience of preparing financial statements under IFRS.
- 2.3 The Committee will, at least annually, review its composition and membership (and make recommendations for change as it sees fit) in order to ensure that the Committee as a whole has competence relative to the sector in which the Company operates.
- 2.4 The Board shall appoint the Committee Chairman. In the absence of the Committee Chairman and/or any appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.
- 2.5 Other Directors, members of management, the Director of Risk Management and Internal Audit, representatives of the external auditors and other relevant or expert person(s) shall regularly attend meetings of the Committee.



2.6 Appointments to the Committee shall be for an initial period of up to three years extendable by no more than two additional three-year periods, provided the Director continues to be independent.

### **3 Secretary**

3.1 The Company Secretary, or their nominee, shall act as the Secretary of the Committee.

### **4 Proceedings**

4.1 The Committee shall meet at least four times a year. Meetings shall normally take place before the announcement of the Company's preliminary and interim results and at such other times as may be required, and may be called by any member of the Committee, by the Secretary or at the request of the internal or external auditor.

4.2 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 Director of Risk Management and Internal Audit.

4.3 At least once a year, without the presence of the Executive Directors or management, members of the Committee shall meet separately with each of the external auditors, the external valuers and the Director of Risk Management and Internal Audit.

4.4 Agendas and relevant papers shall be circulated to all members of the Committee and, in whole or in part as appropriate, to the Director of Risk Management and Internal Audit, the external auditors and to other invited attendees in good time in advance of each meeting.

### **5 Quorum**

5.1 The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

### **6 Minutes of meetings**

6.1 The Secretary shall minute the proceedings and decisions of all Committee meetings.

6.2 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all other members of the Board, unless (as determined by the Committee Chairman) it would be inappropriate to do so.

### **7 Annual General Meeting**

7.1 The Chairman of the Committee shall attend the Annual General Meeting to respond to any shareholder questions on the Committee's activities.

### **8 Duties**

8.1 The Committee shall perform the duties set out below:



## **8.2 Financial and Narrative Reporting**

8.2.1 The Committee shall monitor the integrity of the financial statements of the Company and review and report to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by, and consulted on it with, the external auditor. 'Financial statements' shall include the Company's annual and half-yearly reports, any interim management statements decided to be made by the Board and any other formal announcement relating to its financial performance.

8.2.2 In particular, the Committee shall review and challenge where necessary:

- the consistency of, and any changes to, significant accounting policies both on a year-on-year basis and across the Group;
- the methods used to account for significant or unusual transactions where different approaches are possible;
- whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- the assumptions or qualifications in support of the going concern statement (including any material uncertainties to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements) and the longer term viability statement (including an assessment of the prospects of the Group looking forward over an appropriate and justified period);
- the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
- compliance with financial reporting standards and relevant London Stock Exchange and other financial and governance reporting requirements; and
- 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.

8.2.3 The Committee shall 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 position, performance, business model and strategy.

## **8.3 External Auditor**

8.3.1 Oversee and make recommendations to the Board, to be put to shareholders for approval at the AGM as required, in relation to the appointment, reappointment, resignation or dismissal of the external auditor;

8.3.2 Put the audit services contract out to tender at least once every ten years (and announce its intention to do so in advance of the commencement of the tendering process);

8.3.3 Oversee the selection process of a new external auditor, ensuring all tendering firms have the necessary access to information and individuals during the duration of the tendering process;



- 8.3.4 If an auditor resigns, investigate the issues leading to this and decide if any action is required;
- 8.3.5 Oversee the relationship with the external auditor and negotiate and agree their terms of engagement, including any engagement letter issued at the start of each audit, the scope of the audit and, in consultation with the Executive Directors, agree their remuneration (including fees for both audit and non-audit services) so as to ensure that the level of fees is appropriate to enable an effective and high quality audit to be undertaken;
- 8.3.6 On an annual basis, review and assess:
- the external auditor's independence and objectivity taking into account the relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services; and
  - 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;
- 8.3.7 Agree with the Board a policy on engaging the auditor to perform non-audit services (including the identification of 'clearly trivial' non-audit services which are pre-approved), taking into account any relevant ethical guidance on the matter, and monitoring the implementation of this policy (including reviewing the level of non-audit fees) on a regular basis;
- 8.3.8 Satisfy itself that there are no relationships between the auditor and the Company outside the ordinary course of business (including the level of non-audit fees) that could adversely affect the auditor's independence and objectivity, or the audit process, and report the results of this review to the Board;
- 8.3.9 Agree with the Board a policy on the employment of former employees of the Company's auditor and monitoring the implementation of this policy;
- 8.3.10 Monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of the 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;
- 8.3.11 Be responsible for the co-ordination between the activities of the external auditor and the internal audit function;
- 8.3.12 Evaluate 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 the auditor from the market in that evaluation;
- 8.3.13 Consider communications from the external auditor on audit planning and findings on material weaknesses in accounting and internal control systems that come to the auditor's attention;
- 8.3.14 Review and approve the annual audit plan and ensure it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- 8.3.15 Review, prior to its consideration by the Board, the external auditor's report to the Directors and their management letter, including management's response to the auditor's findings and recommendations;



- 8.3.16 Review any representation letter(s) requested by the external auditor before they are signed by management; and
- 8.3.17 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 the Executive Directors or management being present, to review the findings of the audit including (but not limited to) any major issues which arose during the audit, key accounting and audit judgements; levels of errors identified during the audit and the effectiveness of the audit process.
- 8.4 Internal Controls and Risk Management Systems**
- 8.4.1 Keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems;
- 8.4.2 Review the Company's annual statement on internal control and risk management prior to consideration by the Board; and in particular to review:
- the main features of the Company's internal control and risk management systems in relation to the financial reporting process;
  - the policies and overall process for identifying and assessing the principal and emerging risks of the business and managing their impact on the Company;
  - the assurance reports from management, internal audit, the external auditor and others on the operational effectiveness of matters related to risk and control; and
  - the timeliness of, and reports on, the effectiveness of corrective action taken by management.
- 8.4.3 Consider any necessary disclosure implications of the process that has been applied by the Board to deal with any significant failings or weaknesses disclosed in the Annual Report and Accounts.
- 8.5 Risk Management and Internal Audit**
- 8.5.1 Consider the appointment, resignation or dismissal of the Director of Risk Management and Internal Audit;
- 8.5.2 Review, monitor and assess the role and effectiveness of the Risk Management and Internal Audit function, including the scope of its audit plans and work (which should be aligned to the key risks of the business), the results and issues identified in the periodic output reports and management's response to the internal auditor's findings and recommendations;
- 8.5.3 Review and approve the charter of the Risk Management and Internal Audit function and ensure that it is adequately resourced and has appropriate authority and standing within the organisation and that it is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 8.5.4 Review co-ordination between the Risk Management and Internal Audit function and the external auditor;
- 8.5.5 Meet with the Director of Risk Management and Internal Audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out;




- 8.5.6 Monitor and review the effectiveness of the Company's internal audit function, in the context of the Company's overall risk management system; and
- 8.5.7 Ensure the Director of Risk Management and Internal Audit has direct access to the Board Chairman and Committee Chairman, and is accountable to the Committee.

## **8.6 Ethics, Fraud and Whistle-blowing**

- 8.6.1 Consider the Company's policies and procedures in relation to preventing or detecting fraud and bribery, the code of conduct and business ethics and anti-corruption;
- 8.6.2 Consider the major findings of any relevant internal investigations into control weaknesses, fraud, bribery or misconduct and management's response (without management being present); and
- 8.6.3 Review the adequacy and security of the Company's arrangements for employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and put arrangements in place for proportionate and independent investigation of such matters and for appropriate follow up action.

## **9 Reporting Responsibilities**

- 9.1 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 including the significant issues it considered in relation to the financial statements and how these were addressed; its assessment of the effectiveness of the external audit process and its recommendation on the appointment or re-appointment of the external auditor; its assessment of whistleblowing policies and procedures for employees and any other issues on which the Board has requested the Committee's opinion.
- 9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3 The Chairman of the Committee (and other Committee members as required) shall make themselves available to meet with investors to ensure that shareholder interests are being properly protected in relation to financial reporting and internal control.
- 9.4 The Committee shall compile a report to shareholders, for approval by the Board, on its activities to be included in the Company's Annual Report and Accounts. The report shall include, inter alia:
- an explanation of how the Committee's composition requirements have been addressed and how it has assessed the effectiveness of both the internal and external audit;
  - the significant issues, judgements and risks that the Committee considered in relation to the financial statements (at least in relation to the going concern and longer term viability statements), and how these were addressed, having regard to matters communicated to it by and/or consulted on with the external auditor;
  - an explanation of how the performance evaluation of the Committee has been conducted;

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- details of the statutory and non-audit service fees paid, the Committee’s non-audit services policy and why each category of work undertaken was concluded to be in the interests of the Company to purchase them from the external auditor;
  - the current external auditor’s name and how long the partner has held the role;
  - advance notice of any plans to retender the external audit; and
  - all other reporting information required in accordance with applicable laws and regulations and recommended in accordance with the UK Corporate Governance Code (“Code”) and the latest Guidance on Audit Committees issued by the Financial Reporting Council (“FRC Guidance”).

## **10 Other Matters**

### **The Committee shall:**

- 10.1 at all times during the performance of its duties be mindful of the latest FRC Guidance recommendations;
- 10.2 on an annual basis, review the qualification, expertise and resources, effectiveness and independence of the external valuers and report the results of this review to the Board;
- 10.3 consider other topics and review other disclosures or documents as determined by the Board from time to time;
- 10.4 consider the clarity of the Committee’s reporting in the Annual Report and Accounts;
- 10.5 have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;
- 10.6 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;
- 10.7 oversee any investigation of activities which are within its terms of reference;
- 10.8 give due consideration to and ensure compliance with all relevant laws and regulations (including, but not limited to, reporting standards, the provisions of the Code and the requirements of the UK Listing Authority’s Listing, Prospectus and Disclosure and Transparency Rules) and, as deemed appropriate, institutional investor and other guidelines;
- 10.9 on an annual basis, review and, if necessary, update its own Terms of Reference requesting Board approval for all proposed changes; and
- 10.10 on an annual basis, review its membership, evaluate its own performance against its Terms of Reference and best practice, using external evaluators where appropriate, to ensure it is operating at maximum effectiveness. Report the results of this review to the Board and recommend any changes it considers necessary.

## **11 AUTHORITY**

The Committee is authorised by the Board in the performance of its duties to:

- 11.1 investigate any activity within its Terms of Reference;





- 11.2 seek any information that it requires from any employee (and all employees are directed to co-operate with any request made by the Committee);
- 11.3 obtain outside legal or other independent professional advice at the Company's expense as necessary;
- 11.4 secure the attendance of employees or external advisers at its meetings if it considers this appropriate;
- 11.5 delegate any of its powers to one or more of its members or the Secretary; and
- 11.6 have the right to publish in the Company's Annual Report and Accounts details of any issues that cannot be resolved between the Committee and the Board.