

## **Audit Committee - Terms of Reference**

### **1. Constitution**

- 1.1 Great Portland Estates plc's Audit Committee ('the Committee') is established by Board of Directors.

### **2. Membership**

- 2.1 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. The Committee shall be made up of a minimum of 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 and with competence in accounting and/or auditing. The Committee as a whole shall have competence relevant to the real estate sector. The Chairman of the Board shall not be a member of the Committee.
- 2.3 Only members of the Committee have the right to attend Committee meetings. However, other non-executive directors are encouraged to attend the meetings where possible and other individuals such as the Chairman of the Board, Chief Executive, Finance Director, other directors, Head of Internal Audit and other non-members may be invited to attend all or part of any meeting as and when appropriate.
- 2.4 The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 2.5 Appointments to the Committee shall be for a period of up to three years, which may be extended for further periods of up to three years, provided the director remains independent.
- 2.6 The Board shall appoint the Committee Chairman who shall be an independent non-executive director. 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.
- 2.7 At least once a year, the Committee shall meet separately with the external auditors, and at its discretion, the valuers, the Chief Executive and the Finance Director without management present.

### **3. Secretary**

- 3.1 The Company Secretary or his/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 the 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 four times a year at appropriate times in the reporting and audit cycle and otherwise as required and ensure sufficient time is allowed to undertake as full discussion as may be required. A sufficient interval should be allowed between Audit Committee meetings and Board meetings to allow any work arising from the Audit Committee meeting to be carried out and reported to the Board as appropriate.
- 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 Chairman, the Chief Executive, the Finance Director and the external audit lead partner.

## 6. **Notice of Meetings**

- 6.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or at the request of external or internal auditors 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. Supporting papers shall be sent to the Company Chairman, Committee members and to other attendees as appropriate, at the same time and in a timely manner.

## 7. **Minutes of Meetings**

- 7.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 7.2 Draft minutes of the Committee meetings shall be circulated promptly and agreed with the Committee Chairman. Minutes of Committee meetings shall be circulated to all members of the Committee as part of the following Audit Committee pack for approval at that meeting.

## 8. **Annual General Meeting**

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

## 9. **Duties**

The Committee should have oversight of the group as a whole and 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 year reports, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgments which they contain having regard to matters communicated to it by the auditor.
- 9.1.2 The Committee shall review and challenge where necessary:
  - 9.1.2.1 the consistency of, and any changes to, 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 judgments, taking into account the views of the external auditor;
  - 9.1.2.4 the clarity and completeness of disclosure in the company's financial reports and the context in which statements are made; and
  - 9.1.2.5 all material information presented with the financial statements, such as the strategic report, going concern and viability statements, and the corporate governance statements relating to the audit and risk management.
  - 9.1.2.6 The Committee shall review any other statements requiring Board approval which contain financial information first, where to carry out a review prior to Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules or Disclosure Guidance and Transparency Rules sourcebook.
  - 9.1.2.7 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**

- 9.2.1 Where requested by the Board, the Committee should review the content of the Annual Report and Accounts and advise the Board 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:

- 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 review the viability statement to be included in the Annual Report, although this will be a matter for the Board as a whole to approve.

### 9.4 **Compliance, whistleblowing and fraud**

- 9.4.1 The Committee shall review the company's arrangements for its employees and suppliers 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; and
- 9.4.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

### 9.5 **Internal Audit**

The Committee shall:

- 9.5.1 approve the appointment or termination of the head of internal audit;
- 9.5.2 review and approve the charter of the internal audit function and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate and is equipped to perform 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 approve 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 determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and
- 9.5.7 review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function;

- 9.5.8 meet with the head of internal audit at least once a year without the presence of management; and
- 9.5.9 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 finance and 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 develop and oversee the selection process for the appointment of the audit firm 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 action is required;
- 9.6.4 oversee the relationship with the external auditor including (but not limited to):
  - 9.6.4.1 approval of their remuneration, including both fees for audit or non-audit services to ensure 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 primary terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 9.6.4.3 assess annually their independence and objectivity taking into account relevant legal, professional and regulatory requirements and the relationship with the auditor as a whole including any threats to the auditor's independence and the safeguards applied to mitigate those threats, including the provision of any non-audit services;
  - 9.6.4.4 satisfy itself that there are no relationships 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 agree with the Board a policy on the employment of former employees of the company's auditor, then monitoring the implementation of this policy;
  - 9.6.4.6 monitor the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements;

- 9.6.4.7 assess 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;
- 9.6.4.8 seek to ensure co-ordination of the external audit with the activities of the internal audit function;
- 9.6.4.9 evaluate the risks to the quality and effectiveness of the financial reporting process in light of the auditor's communications with the Committee; and
- 9.6.4.10 develop and recommend to the Board a policy on provision of non-audit services including consideration of any preapproved services; threats to the independence and objectivity of the external auditor and any safeguards in place; the nature of the non-audit services; whether the external audit firm is the most suitable supplier of the non-audit service; the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and assessment of whether the services will have a material effect on the financial statements and consideration of the impact on the independence of the audit of the financial statements;
- 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. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their 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;
- 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 any accounting and audit judgements;
  - 9.6.7.4 levels of errors identified during the audit; and
  - 9.6.7.5 the auditor's view of their interactions with senior management;
- 9.6.8 review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee;
- 9.6.9 review any representation letter(s) requested by the external auditor before they are signed by management; and
- 9.6.10 review the management letter and management's response to the auditor's findings and recommendations.

## 9.7 **Valuation**

In connection with the external valuers appointed from time to time by the Board, the Committee shall in connection with, half year and year end valuation:

- 9.7.1 assess their independence and objectivity; and
- 9.7.2 discuss with the valuers the valuation process and any major issues which arose during the valuation.

## 10. **Reporting responsibilities**

10.1 The Committee Chairman shall report formally to the Board on how it has discharged its responsibilities after each meeting on all matters within its duties. The report shall include:

- 10.1.1 the significant issues that it considered in relation to the financial statements and how these were addressed;
- 10.1.2 its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
- 10.1.3 any other issues 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 Chairman will ensure that Minutes are taken of all meetings and copies of all Minutes are circulated to the full Board.

10.4 The Committee shall compile a report to shareholders on its activities to be included in the company's Annual Report. The report should include:

- 10.4.1 a summary of its role, how the audit composition requirements have been addressed and how the Audit Committee's performance evaluation has been conducted;
- 10.4.2 an explanation on how the Committee has addressed the effectiveness of the external audit process;
- 10.4.3 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 requirements set out in the Code, requirements of the UK Listing Authority's Listing, Prospectus and Disclosure Guidance and Transparency Rules sourcebook;
- 10.4.4 the nature and extent of interaction (if any) with the FRC's Corporate Reporting Review team and findings if the Company's audit has been reviewed by the FRC; and
- 10.4.5 if the external auditor provides non-audit services, the policy for approval of non-audit services, how the auditor objectivity and independence is safeguarded, the audit and non-audit fees paid, the ratio of the audit and non-audit fees and why the

Committee concluded it was in the best interests of the Company to purchase them from the external auditor.

- 10.5 In compiling the report, the Committee should exercise judgment in deciding which of the issues it considers in relation to 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 Code and the requirements of the UK Listing Authority's Listing Rules, Prospectus and Disclosure and Transparency Rules as appropriate;
- 11.4 oversee any investigation of activities which are within its terms of reference;
- 11.5 work and liaise as necessary with all other Board Committees; and
- 11.6 at least once a year, review its own performance, 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 by the Board:

- 12.1 to seek any information it requires from any employee of the company in order to perform its duties;
- 12.2 to obtain, at the company's expense, outside legal or other professional advice on any matter within its terms of reference;
- 12.3 to call any employee to be questioned at a meeting of the Committee as and when required; and
- 12.4 to have the right to publish the Company's Annual Report, details of any issues that cannot be resolved between the Committee and the Board.