

# Audit Committee Report

## INTRODUCTION

The Audit Committee is appointed by the Board from the Non-Executive Directors of the Group. The Audit Committee’s terms of reference include all matters indicated by Disclosure and Transparency Rule 7.1 and the UK Corporate Governance Code. The terms of reference are considered annually by the Audit Committee and are then referred to the Board for approval.

The Audit Committee is responsible for:

- > monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group’s financial performance and reviewing significant financial reporting judgements contained therein;
- > reviewing the Group’s internal financial controls and the Group’s internal control and risk management systems, including consideration of the need for an internal audit function;
- > making recommendations to the Board for a resolution to be put to the shareholders for their approval in general meetings, on the appointment of the external auditor and the approval of the remuneration and terms of engagement of the external auditor;
- > reviewing and monitoring the external auditor’s independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- > developing and implementing a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm.

The Audit Committee is required to report its findings to the Board, identifying any matters on which it considers that action or improvement is needed, and make recommendations on the steps to be taken.

This year, the Committee has tendered the Group’s external audit and continued to focus on the narrative reporting and corporate governance disclosures in the Annual Report. The Committee was asked by the Board to review the statement by the Directors that the Annual report presents a fair, balanced and understandable view of the Group’s performance, strategy and business model.

### Mark Richardson

Audit Committee Chairman

### Committee Members and Attendance

| Member          | Position | Number of meetings attended |
|-----------------|----------|-----------------------------|
| Tim Clark       | Member   | ●●●●                        |
| Richard Cotton  | Member   | ●○●●                        |
| Georgina Harvey | Member   | ●●●●                        |
| Steve Johnson   | Member   | ●●●○                        |
| Mark Richardson | Chairman | ●●●●                        |

- attended
- absent

Richard Cotton and Steve Johnson both missed one Audit Committee meeting during the year due to unavoidable business commitments.

All Audit Committee members are expected to be financially literate. Furthermore, the Audit Committee structure requires the inclusion of one financially qualified member [as recognised by the Consultative Committee of Accountancy Bodies]. Currently Mark Richardson, as a Fellow of the Institute of Chartered Accountants of England and Wales, fulfils this requirement.

Mark Richardson has announced his intention to retire from the Board at the 2017 Annual General Meeting. The Board has commenced recruitment for his successor as Audit Committee Chairman and anticipates announcing his successor before the AGM. It is the Board’s intention that his successor will be a financially qualified member.

The Group provides an induction programme for new Audit Committee members and ongoing training to enable all of the Committee members to carry out their duties. The induction programme covers the role of the Audit Committee, its terms of reference and expected time commitment by members and an overview of the Group’s business, including the main business and financial dynamics and risks. New Committee members also meet some of the Group’s staff. Ongoing training includes attendance at formal conferences, internal company seminars and briefings by external advisers.

### Meetings

The Audit Committee is required to meet three times per year and has an agenda linked to events in the Group’s financial calendar. The agenda is predominantly cyclical and is therefore approved by the Audit Committee Chairman on behalf of his fellow members. Each Audit Committee member has the right to require reports on matters of interest in addition to the cyclical items.

The Audit Committee invites the Chief Executive, Chief Financial Officer, Financial Controller, and senior representatives of the external auditor to attend all of its meetings in full, although it reserves the right to request any of these individuals to withdraw. Other senior management are invited to present such reports as are required for the Committee to discharge its duties.

## Audit Committee Report (continued)

### Overview of the actions taken by the Audit Committee to discharge its duties

Since the beginning of the financial year the Audit Committee has:

- > reviewed published financial information including the year end results, Annual Report, half year results and the Interim Management Statements;
- > considered whether the Annual Report provides a fair, balanced and understandable view of the Group's performance, strategy and business model;
- > assessed and concluded on the Group's viability statement;
- > considered the output from the Group-wide process used to identify, evaluate and mitigate risks;
- > reviewed the effectiveness of the Group's internal controls and disclosures made in the annual report and financial statements on this matter;
- > reviewed and agreed the scope of the audit work to be undertaken by the external auditor;
- > agreed the fees to be paid to the external auditor for their audit of the March 2017 financial statements and September half-yearly report;
- > considered and agreed the approach of performing Directors' valuations of investment properties for the half-year report;
- > undertaken an assessment of the qualification, expertise and resources, and independence of the external auditor and the effectiveness of the audit process;
- > considered the audit partner and audit firm rotation;
- > having considered audit firm rotation, the Committee conducted a tender for the appointment of a new external auditor during the year;
- > undertaken an evaluation of the performance of the external auditor;
- > considered the need for an internal audit function;
- > reviewed the arrangements for "whistleblowing" by employees to ensure that there is a consistent policy in the Group to enable employees to voice concerns particularly in respect of possible financial reporting improprieties. A whistleblowing policy is included in the employee handbook;
- > met the Group's external valuers;
- > met the Group's Store Compliance Manager;
- > reviewed the Audit Committee's Report; and
- > reviewed its own effectiveness.

### Financial reporting and significant financial judgements

The Committee reviews all financial information published by the Group in year end and half-year financial statements, including the presentation and disclosure of the financial information. It also considers the appropriateness of the accounting policies adopted by the Group and the accounting judgements made by management in the preparation of the financial information.

The Committee has considered whether the Annual Report for the year ended 31 March 2017 provides a fair, balanced and understandable view of the Group's performance, strategy and business model and whether it provides the necessary information to enable shareholders and prospective shareholders to assess the Group's performance, strategy and business model. The Committee is satisfied that the Annual Report for the year ended 31 March 2017 provides a fair, balanced and understandable view and includes the necessary information as set out above. The Committee has confirmed this to the Board, whose statement is included in the Statement of Directors' Responsibilities on page 88.

The Committee focuses on matters it considers important in their impact on the reported results of the Group, and on matters where there is a high degree of complexity and/or judgement.

The key area of judgement that the Committee focuses on at the reporting date is the valuation of the investment property portfolio. This is carried out by independent external valuers, but by its nature it is subjective, with significant judgement applied to the valuation, particularly given the lack of transactional evidence for prime self storage assets. Members of the Committee met the external valuers to discuss the valuations, review the key judgements and discussed whether there were any disagreements with management. This year the Committee reviewed and challenged the valuers on the cap rates, rental growth assumptions and stabilised occupancy levels, to agree on the appropriateness of the assumptions adopted. The Committee also challenged the valuers, and satisfied itself on, their independence, their quality control processes (including peer partner review) and qualifications to carry out the valuations. Management also have processes in place to review the external valuations. In addition, the external auditors use specialists to review the valuations and report their findings and conclusions to the Audit Committee.

The Committee has also considered a number of other judgements made by management in the preparation of the financial statements. It has concluded that there is not a significant level of judgements involved.

Management have reported to the Audit Committee that they are satisfied that they are not aware of any material misstatements in the financial statements. The auditors confirmed in their report to the Audit Committee that they had not found any material misstatements during their audit work.

Based on the above, the Committee concluded that the financial statements appropriately apply the key estimates and critical judgements, in respect of the disclosures and the amounts reported. The Committee also concluded that the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

### External auditor

The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. The policy assigns oversight responsibility for monitoring the independence, objectivity and compliance with ethical and regulatory requirements to the Audit Committee, and day-to-day responsibility to the Chief Financial Officer. The policy states that the external auditor is jointly responsible to the Board and the Audit Committee and that the Audit Committee is the primary contact.

To fulfil its responsibility regarding the independence of the external auditor, the Audit Committee reviewed:

- > the external auditor's plan for the current year, noting the role of the senior statutory audit partner, who signs the audit report and who, in accordance with professional rules, has not held office for more than five years, and any changes in the key audit staff;
- > the arrangements for day-to-day management of the audit relationship;
- > a report from the external auditor describing their arrangements to identify, report and manage any conflicts of interest;
- > the overall extent of non-audit services provided by the external auditor, in addition to its case-by-case approval of the position of non-audit services by the external auditor; and
- > the past service of the auditor who was first appointed in 2000.

### **Annual auditor assessment**

The Audit Committee has adopted a formal framework in its review of the effectiveness of the external audit process and audit quality which include the following areas:

- > the arrangements for ensuring the external auditor's independence and objectivity;
- > the lead audit engagement partner and the audit team;
- > the external auditor's fulfilment of the agreed audit plan and variations from the plan;
- > the quality of the formal audit report to shareholders;
- > the robustness and perceptiveness of the auditor in his handling of the key accounting and audit judgements; and
- > the content of the external auditor's comments on control improvement recommendations.

Regard is paid to the nature of, and remuneration received, for other services provided by Deloitte LLP to the Group and, inter alia, confirmation is sought from them that the fee payable for the annual audit is adequate to enable them to perform their obligations in accordance with the scope of the audit. Where non-audit services are provided, the fees are based on the work undertaken and are not success related.

### **Non-audit work**

The Group's policy on external audit sets out the categories of non-audit services which the external auditor will and will not be allowed to provide to the Group, including those that are pre-approved by the Audit Committee and those which require specific approval before they are contracted for, subject to de minimis levels. They may not provide a service which places them in a position where they may be required to audit their own work. Specifically, they are precluded from providing services relating to bookkeeping, financial information system design and implementation, appraisal or evaluation services, actuarial services, any management functions, investment banking services, legal services unrelated to the audit or advocacy services.

In respect of the year ended 31 March 2017, the auditor's remuneration comprised £186,000 for audit work and £85,000 for other work, principally relating to the interim review, VAT work, and the assurance of the CSR report. In addition, over a three year rolling period, the level of non-audit fees is below the audit fee.

### **Audit rotation**

The Group's current auditor, Deloitte LLP, has been in tenure since 2000 and the current audit partner has been in place since the audit of the 2013 financial statements. During the year the Committee tendered the external audit with a view to changing auditors given this year marked the end of the five year term of the current audit partner.

Following a robust tender process, the Committee appointed KPMG LLP as auditors. As part of the tender process, the Committee reviewed KPMG's proposals for the audit and determined that they had an appropriate plan in place to carry out an effective audit. KPMG confirmed to the Committee that it maintained appropriate internal safeguards to ensure its independence and objectivity.

The Company is in compliance with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 and the Code.

### **Risk management and internal control**

The Committee and the Board reviewed the internal control processes of the business and the Group's risk register during the year. The risks and uncertainties facing the Group, and its internal control processes are considered in the Strategic Report on pages 37 to 39.

### **Internal audit**

The Committee has considered the Board's view that, given the relatively straightforward nature of the Group's business and the control environment in place, no formal internal audit function is required. The Committee concurs with management's view.

### **Overview**

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of the external auditor.

The Chairman of the Audit Committee will be available at the Annual General Meeting to answer any questions about the work of the Committee.

Approved by the Audit Committee and signed on its behalf by:

### **Mark Richardson**

Audit Committee Chairman  
22 May 2017