

Audit and Risk Committee Report

As Chairman of Glenveagh Properties PLC's Audit and Risk Committee, I am pleased to present the Committee's Report for the financial year ended 31 December 2018.

Following the Committee's inception in October 2017, 2018 was a busy first full year of activity. We have proactively managed a wide range of matters within our remit, and this activity has been outlined in further detail in the sections that follow.

During the financial year the Committee focused particularly on the appropriateness of the Group's financial statements reviewing accounting policies and areas of estimate and judgment as part of the approval of Group's 2017 annual report, the interim financial statements for the three months ended 31 March 2018 and the half year financial statements to 30 June 2018. In addition, the Committee invested significant time reviewing the Group's risk management framework and approving a number of new Group wide policies. The Committee also met with representatives of both the internal and external audit functions to review various reports and findings from audits undertaken during the financial year.

The Audit and Risk Committee has satisfied itself, and has advised the Board accordingly, that the 2018 annual report and financial statements are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

As this report will demonstrate, I am confident in saying that the Audit and Risk Committee has met its obligations and continues to monitor changes in the ever-changing financial and regulatory environment within which the organisation operates.

Robert Dix
Chairman
Audit and Risk Committee



As part of the approval of Group's 2017 annual report ; the interim financial statements for the three months ended 31 March 2018 and the half year financial statements to 30 June 2018, the Committee focused particularly on the appropriateness of the Group's financial statements reviewing accounting policies and areas of estimate and judgment



Robert Dix
Chairman
Audit and Risk Committee

Roles and Responsibilities

The Audit and Risk Committee's Terms of Reference are available on the Group's website. The Terms of Reference are reviewed annually and amended in line with any future organisational changes to ensure they continue to be fit for purpose.

At a high level, the duties carried out by the Audit and Risk Committee relate to:

- Financial reporting;
- Risk management;
- Internal controls;
- Compliance; and
- Oversight of the Group's relationship with the external auditor.

These responsibilities are intended to be performed in conjunction with the management team, Executive Committee and internal and external auditors.

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The key function of the Committee is oversight of the Group's internal control and risk management systems. This involves the following responsibilities:

- Review the adequacy and effectiveness of the Group's internal controls including the systems established to identify, assess, manage and monitor risks and receive reports from management on the effectiveness of these, including the conclusions of any testing carried out by internal or external auditors and other assurance providers;
- Review the principal risks identified in the annual report and the statements on the Group's internal controls and risk management framework;
- Review and approve the risk management policy and the Group's risk register and appetite statement, prior to submission to the Board for its approval;

- Advise the Board on the Group's current risk exposures and future strategy for managing such risks;
- Review relevant risk reporting, including incident breach reporting in order to assess the effectiveness of the Group's risk management process.

Other responsibilities of the Audit and Risk Committee are set out in detail in its Terms of Reference which are available on the Group's website and are noted below;

- (i) Integrity of the Financial Statements and Announcements
- (ii) Compliance, Whistleblowing and Fraud
- (iii) Internal Audit
- (iv) External Audit
- (v) Committee Effectiveness

Audit and Risk Committee Composition

The Audit and Risk Committee comprises three independent NEDs; Robert Dix (Chairman), Richard Cherry and Lady Barbara Judge. The biographies of these Directors can be found on page 90.

The Board believes that Committee members offer a balanced suite of expertise, including financial expertise and experience in the legal and property sectors. Particularly, the Board considers that the Committee Chairman has sufficient recent and relevant financial experience for the role and that there is sufficient financial and commercial experience within the Audit and Risk Committee as a whole. This vast array of skills enables the Audit and Risk Committee to carry out its duties and responsibilities as detailed in the Committee's Terms of Reference.

Meetings

The Audit and Risk Committee have met on four occasions during the financial year. The attendance of Committee members is detailed in the table below. On occasion, special attendees were invited to attend all, or part of Committee meetings as deemed appropriate and necessary by the Committee Chairman.

Committee Member	In Attendance	Committee member as of
Robert Dix	4/4	2017
Richard Cherry	4/4	2017
Lady Barbara Judge	4/4	2017

Activities

During the financial year, the business has grown significantly with a consequential impact on the nature and extent of the Group's risk profile and as a result the risks have evolved. Further detail in relation to the Group's approach to risk management is set out on pages 46 to 53. The Group continues to monitor and invest appropriate levels of resource in risk management and compliance activity. Set out on page 74 is a summary of the Committee's activity during the financial year.

One of the Committee's responsibilities is to review the adequacy and effectiveness of the Group's internal controls including the systems established to identify, assess, manage and monitor risks and receive reports from management on the effectiveness of these, including the conclusions of any testing carried out by internal or external auditors and other assurance providers.

Activity in 2018	
Topic	Description of activity
Financial Reporting	<p>The Committee assessed whether suitable accounting policies had been adopted in the preparation of the results for the financial year and whether management had made appropriate estimates and judgements. In particular, the Committee focused on areas that involved a significant level of judgement or complexity (as outlined in the financial reporting section below). The Committee also considered the view expressed by the external auditor, KPMG, in making these assessments.</p> <p>During the financial year, the Committee reviewed and approved the Group's 2017 Annual Report and the financial statements for the three month period ended 31 March 2018 and for the half year ended 30 June 2018.</p> <p>The Committee considered the requirements of the Irish Companies Act 2014 in relation to the Directors' Compliance Statement and is satisfied that appropriate steps have been taken to ensure compliance by the Group with these requirements. The Committee also considered the Group's adoption of the going concern basis of preparation and its viability statement prior to recommending both for approval by the Board.</p>
Risk Management	<p>In respect of the 2018 annual report, the Committee considered the Group's risk management framework and the key business risks as disclosed in the Risk Management Report as part of its review of the Group's risk register.</p> <p>The Committee also reviewed and approved new Group wide policies in relation to procurement, delegation of authority and whistleblowing procedures.</p>
Internal Audit	<p>The Committee met representatives from the outsourced internal audit function throughout the financial year and reviewed reports, findings and recommendations arising from the audits conducted.</p> <p>The Committee also approved the planned programme of work for 2019.</p>
External Audit	<p>The Committee met representatives from the external auditor throughout the financial year both with and without management being present.</p> <p>During 2018, the Committee reviewed KPMG's reports on the 2017 audit as well on the interim reviews for the periods ended 31 March 2018 (required as part of the Group's capital raise) and 30 June 2018. It also reviewed and approved KPMG's audit plan in respect of the audit for the year ended 31 December 2018.</p>

Fair, Balanced and Understandable

The Board is responsible for the approval of the annual report and financial statements. The Board is required to confirm that:

- It considers the annual report and financial statements, taken as a whole, to be fair balanced and understandable; and
- It provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

At the request of the Board, the Committee considered whether the annual report and financial statements for the financial year met these requirements. The Committee considered the content of the document and discussed with management the approach taken to its

preparation, in particular the planning, co-ordination and review activities. The Committee also noted the process undertaken by KPMG.

The Audit and Risk Committee subsequently confirmed to the Board that the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Financial Reporting

The primary issue considered by the Audit and Risk Committee in relation to the financial statements for the financial year ended 31 December 2018 was the Group's assessment of the carrying value of inventory at the balance sheet date.

Significant Issue Considered	Committee Activity
<p>Carrying value of inventory</p> <p>The carrying value of the Group's inventory was €718.9 million at 31 December 2018 which comprises the cost of development land and development rights acquired, and the costs of the work completed thereon to date. Inventory is required to be carried at the lower of cost and net realisable value.</p> <p>At financial year end management undertook an exercise to assess the net realisable value of the inventory balance in order to assess the carrying value at that date. There is a significant level of judgement involved in this exercise which includes a review of future cash flows associated with each individual site in order to validate current profitability projections which are also the key determinants of profit recognition as sales complete. The exercise indicated no evidence of impairment and therefore no adjustment to the carrying value was required at 31 December 2018.</p>	<p>Management presented a summary of its review to the Committee which included information in relation to the cross functional approach taken to the net realisable value calculations, as well as the review process undertaken by senior management. Management's presentation included a summary of the results of the review for each development site with key assumptions highlighted for discussion.</p> <p>The Committee considered the financial year end approach to the inventory carrying value review and discussed same with management. It also considered the external auditor's findings in respect of the carrying value review which supported management's assertion that no indicators of impairment were identified.</p> <p>Based on the results of the process undertaken by management, the Committee was satisfied with the carrying value of inventory at year end.</p>

Internal Audit

While the Group has outsourced its internal audit function to Deloitte, the Committee continues to maintain oversight of and responsibility for the function's effectiveness on an annual basis. The Committee met representatives from the outsourced internal audit function on four occasions during the financial year and considered the reports and updates from the internal audit function which summarised the work undertaken, findings, recommendations and management responses to audits conducted during the financial year. The Committee has also approved the planned programme of work for 2019.

External Auditor

KPMG is the external auditor of the Group. The Audit and Risk Committee considers and makes recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment or removal of the external auditor. KPMG attended each of the Committee meetings in 2018.

Audit effectiveness

The effectiveness of the external audit process is assessed by the Audit and Risk Committee, which meets regularly throughout the financial year with the audit partners. In conducting this review, the Audit and Risk Committee concluded that the audit process as a whole had been conducted robustly and that the team selected to undertake the audit had done so thoroughly and professionally.

In assessing the independence and objectivity of the external auditor, the Audit and Risk Committee considered the internal processes which the External Auditor has in place to ensure their independence and objectivity is monitored and reviewed sufficiently. Further, the Audit and Risk Committee considered senior management's satisfaction with KPMG. The Committee also meets regularly with KPMG without the presence of management.

Auditor independence and non-audit services

KPMG have formally confirmed their independence to the Audit and Risk Committee. In order to further ensure independence, the Committee has a policy on the provision of non-audit services by the external auditor that seeks to ensure that the services provided by the external auditor are not, or are not perceived to be, in conflict with auditor independence. Analysis of fees paid or payable in respect of services provided by KPMG in the financial year are analysed in the table below:

	€ '000
Audit fees	120
Non-audit fees	
Interim review fees	15
Tax services fees	77
Reporting Accountant fees	300
Total non-audit fees	392

At the end of the financial year, non-audit fees paid to KPMG, excluding the non-recurring Reporting Accountant fee in relation to the Group's Capital Raise, represented 77% of total audit fees.

It is the Group's practice to engage KPMG on assignments in addition to their statutory audit duties where their expertise and experience with the Group are important. During the financial year, KPMG were retained to provide reporting accountant services in relation to the issuing of the Group's shares on the main markets of the London and Irish Stock Exchanges. The Audit and Risk Committee considered this appropriate given the nature of the transaction and KPMG's extensive knowledge of the business and the Group's internal processes arising not only from its role as auditor but also its recent previous similar work in connection with the Group's IPO. On that basis, the Group incurred professional fees with the external auditor that exceeded the audit fee. KPMG also provided certain tax services in the financial year which were also considered and deemed appropriate by the Committee.



The Committee has approved a policy on the use of the external auditor for non-audit services and continually monitors the ratio of audit to non-audit fees, acknowledging the legislation which will apply to the Group from 2020 onwards requiring fees for non-audit services to be capped at 70% of the average statutory audit fee over the previous 3 year period. Further, in reviewing non-audit services provided by the external auditor, the Committee considers whether the non-audit service is a permissible service under the relevant legislation and any real or perceived threat to the external auditor's independence and objectivity to include, among other considerations, a review of: the nature of the non-audit services; whether the experience and knowledge of the external auditor makes it the most suitable supplier of the non-audit services; and the economic importance of the Group to the external auditor. The policy on the supply of non-audit services includes a case by case assessment of the services to be provided and the costs of the services by the external auditor considering any relevant ethical guidance on the matter.

