Audit and Risk Committee Report

Robert Dix
Chairman, Audit and Risk Committee

As Chairman of Glenveagh Properties PLC's Audit and Risk Committee, I am pleased to present the Committee's Report for the period under review.

The Audit and Risk Committee has satisfied itself, and has advised the Board accordingly, that the 2017 annual report and financial statements are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

As this report will demonstrate, I am confident in saying that since its formation, the Audit and Risk Committee has met its obligations as appropriate in its first year of formation and continues to monitor changes in the financial and regulatory environment within which the organisation operates.

Roles and Responsibilities

Following the formation of the Board and, subsequently, the Audit and Risk Committee during the period, the Committee set about establishing its Terms of Reference, which are now available on the Company's website. The Terms of Reference will be 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 company's relationship with the external auditor.

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

The key function of the Committee is oversight of the Company'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 Company's internal controls and risk management framework
- Review and approve the risk management policy and the Company's risk register and appetite statement, prior to submission to the Board for its approval
- Advise the Board on the Company'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 Company's risk management process

Other responsibilities of the Audit and Risk Committee are set out in its Terms of Reference and are detailed in the table below.

As this report will demonstrate, I am confident in saying that since its formation, the Audit and Risk Committee has met its obligations as appropriate in its first year of formation and continues to monitor changes in the financial and regulatory environment within which the organisation operates.

Other Responsibilities	
Integrity of Financial Statements and Announcements	Examine the integrity of annual and half-yearly reports, interim management statements, preliminary announcements and any other formal statement relating to financial performance
	Evaluate and approve material accounting policies, estimates and judgements
	Review policies used to determine if the annual report (including financial statements) are fair, balanced and understandable
	Assess the application of significant accounting policies and any proposed changes
	Review methods and approaches for significant or unusual transactions
	Review all material information presented in the annual report, including but not limited to the Strategy and Business Model overview and Corporate Governance Statement
	Maintain awareness in relation to the implications of new accounting standards and changes in the regulatory environment
Compliance, Whistleblowing & Fraud	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, ensuring that arrangements allow proportionate and independent investigation of such matters and appropriate follow up action
	Review the Company's procedures for detecting fraud
	Review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance
Internal Audit	Review and approve the role and authority of internal audit (including external party if internal audit function is outsourced), monitor and review the effectiveness of its work, and approve the internal audit charter to ensure its appropriateness for the current needs of the organisation
	Review the internal audit plan for the upcoming financial year to ensure its alignment with the key risks of the business, and receive regular reports on work carried out
	Approve the internal audit charter annually ensuring it is appropriate for the current needs of the organisation and determine whether it is satisfied with the quality, experience and expertise of internal audit
	Ensure internal audit have the necessary scope to carry out its mandate and encourage open communication between functions
	Assess the performance of the internal audit function by carrying out an annual assessment of the effectiveness of the function

Other Responsibilities	
External Audit	Monitor the relationship with the external auditor which includes assessment and confirmation of independence
	Assess the effectiveness and performance of the external auditor
	Approve external audit plans for the half and full year ends
	Review the external auditor's findings in relation to annual and half-yearly financial statements
	Review the process and timing for retendering the Group's external audit
	Meet with the external auditor without management being present
	Consider the ratio between audit and non-audit fees
Committee Effectiveness	Implement changes in relation to matters arising from previous year's Committee evaluation which identified areas for improvement
	Create an action plan to address development areas identified in the Committee's annual evaluation

Audit and Risk Committee Composition

The Audit and Risk Committee comprises three independent Non-Executive Directors; Robert Dix (Chairman), Richard Cherry and Lady Barbara Judge. The biographies of these Directors can be found on pages 77 and 78.

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.

Meeting

Following formation in October 2017, the Audit and Risk Committee met once during the period under review. All Committee members were in attendance at this meeting with the exception of Lady Barbara Judge. On occasion, special attendees including the CFO were invited to attend all or part of Committee meetings as deemed appropriate and necessary by the Committee Chairman.

Activities

During this initial reporting period, the Committee focused primarily on obtaining an overview and an understanding of the Group's internal control environment which included the consideration of internal audit requirements, following which Deloitte were appointed as the Group's internal auditors. The Committee also

In respect of the 2017 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.

assessed external audit requirements, after which KPMG were appointed as external auditors of the Group. Subsequent consideration and approval was given to a policy in relation to the provision of non-audit services by the Group's external auditors.

In respect of the 2017 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. The Committee also assessed whether suitable accounting policies had been adopted in the preparation of the results for the period 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 om pages 61 and 62). The Committee also considered the view expressed by the external auditor, KPMG, in making these assessments.

Fair, Balanced and Understandable

The Code outlines that the Board is responsible for preparing the annual report and financial statements. It also requires the Board 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 Company'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 period 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 significant issues considered by the Audit and Risk Committee in relation to the financial statements for the period ended 31 December 2017 and how each of them was addressed were as follows:

Significant Issue Considered	Committee Activity
Acquisition Accounting The Group has undertaken certain material acquisitions during the period. On 13 October 2017 and conditional on IPO, the Company acquired 100% of the share capital of both Glenveagh Homes Limited (formerly Bridgedale Homes Limited) and Glenveagh Contracting Limited (formerly Bridgedale Contracting Limited) for consideration of €4.1 million and €0.3 million respectively. Consideration was settled by way of issue of shares in the Company equal to the fair value of the shares acquired. On the same date, the Group completed the asset acquisition (also conditional on IPO) of a number of sites from a related party (Targeted Investment Opportunities ICAV). In total, 13 assets were acquired at an aggregate cost of €110.25 million which was also settled by issue of shares to that value in the Company. Management have accounted for the above transactions in accordance with the relevant accounting standards and appropriate disclosure has been made in note 23 of financial statements.	The Committee has considered the accounting treatment adopted by management and disclosure in respect of the material transactions noted and is satisfied with same.
Share-based payments As part of the IPO process, two share-based payment arrangements were entered into with members of the executive and management teams. The Founder Shares issued to John Mulcahy, Justin Bickle (beneficially held by Durrow Ventures) and Stephen Garvey entitle them to share 20% of the Company's Total Shareholder Return (being the increase in market capitalisation of the Company, plus dividends or distributions in the relevant period) ("TSR") in each of five individual testing periods up to 30 June 2022 subject to achievement of a performance condition related to the Company's share price. Management engaged an independent valuation expert who valued the Founder Shares at €47.5 million at grant date. This expense was recognised in its entirety in profit or loss (with a corresponding impact on equity and therefore no impact on net assets) in the period based on the contractual terms attaching to the shares. 1.6 million options were also issued to certain executives (excluding the Founders) and members of the management team under a long-term incentive plan ("LTIP") in the period and will vest on the third anniversary of listing subject to achievement of certain performance conditions related to the Company's TSR over the period. An independent valuation expert valued the LTIP options at grant date and this expense will be recognised in profit or loss over the vesting period with €0.04 million recognised in the period to 31 December 2017.	The Committee considered the accounting requirements for both share-based payment arrangements. This involved: - Obtaining an understanding of the classification of and accounting for the share-based payment transactions through discussion with management and a review of accounting analysis performed by management; - Discussion in relation to the approach to the calculation of the grant date fair value of each instrument; - Consideration of the significant assumptions used by the independent valuation expert; and - Consideration of the extensive disclosures included in the financial statements. The Committee is satisfied the accounting treatment adopted reflects the terms of the arrangements and disclosures included in notes 14 and 24 of the consolidated financial statements are appropriate.

Significant Issue Considered	Committee Activity
Carrying value of inventory The carrying value of the Group's inventory is €228 million at 31 December 2017 which comprises the cost of development land acquired and the cost of the work completed thereon to date. Inventory is required to be carried at the lower of cost and net realisable value. At period 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. The exercise indicated no evidence of impairment and therefore no adjustment to the carrying value was required at 31 December 2017.	The Committee considered the period end approach to the inventory carrying value review and discussed same with management. Based on the results of the process undertaken by management, the Committee was satisfied with the carrying value of work in progress and development land at period end.

Each of the above areas received particular focus from the external auditor, who provided detailed analysis and assessment of each matter in their report to the Committee.

Internal Audit

Given Glenveagh's current scale and the current position in its life cycle, the Group does not have an "in-house" internal audit function. The Committee has considered this position and does not deem it a matter of concern given the Company's limited trading in the period under review. During the period, the decision was taken to outsource the internal audit function to an independent third party (Deloitte) with the intention of the Audit and Risk Committee maintaining ownership of the internal audit agenda and reviewing the effectiveness of the function on an annual basis.

External Auditor

KPMG has been appointed as 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 Auditor.

Audit effectiveness
The effectiveness of the external audit process is assessed by the Audit and Risk Committee, which meets regularly throughout the year with the audit partner and senior audit managers. 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 took into account senior management's satisfaction with KPMG, including its level of planning and coordination, ability to meet delivery dates and objectives, preparedness and organisation, ability to firmly challenge management and quality of communication.

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 at period end to KPMG in respect of services provided in the period are analysed in the table below:

	€ '000
Audit fees	100
Tax advisory fees	27
Tax compliance fees	41
IPO related fees	728

At the end of the period under review, non-audit fees paid to KPMG, excluding the once-off IPO costs, represented 68% of total audit fees.
It is the Company'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 period, KPMG were retained to provide reporting accountant services in relation to the listing of the Company's shares on the main markets of the London and Irish Stock Exchanges. The Audit and Risk Committee considered this appropriate given the once-off nature of the Company's IPO and KPMG's extensive knowledge of the business and the Company's internal processes. On that basis, the Company incurred professional fees with the external auditor that exceeded the audit fee. KPMG also provided certain tax compliance and advisory services in the period 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 Company 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 Company 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 taking into account any relevant ethical guidance on the matter.

Robert Dix

Robert Dix
Chairman
Audit and Risk Committee

The effectiveness of the external audit process is assessed by the Audit and Risk Committee, which meets regularly throughout the year with the audit partner and senior audit managers.