

THE CROWN ESTATE (“TCE”)

TERMS OF REFERENCE - AUDIT COMMITTEE

1. ROLE

The role of the audit committee (**Committee**) is to review, monitor, oversee and challenge the integrity of the TCE’s financial and narrative statements, its internal controls (including financial controls) and risk management systems and framework, internal audit process and external audit process.

2. DUTIES

The Committee shall carry out the following duties.

2.1 Financial reporting

The Committee shall:

- (a) monitor the integrity of the financial statements of TCE and review significant financial reporting judgements contained in them having regard to matters communicated to it by the external auditor;
- (b) review and challenge where necessary:
 - (i) the application and appropriateness of significant accounting policies;
 - (ii) the appropriateness of estimates and judgements (taking into account the external auditors view);
 - (iii) the clarity and completeness of disclosures in the financial statements and the context of those disclosures;
 - (iv) the methods used to account for significant or unusual transactions;
 - (v) significant adjustments resulting from the external audit; and
 - (vi) the valuation process and effectiveness of TCE’s valuers;
- (c) review the content of the annual report and accounts and advise the board on;
 - (i) whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary to assess TCE’s performance, business model and strategy;
 - (ii) the appropriateness of the assumptions or qualifications in support of the going concern statement and the longer-term viability statement contained therein; and

- (iii) management letters of representation and external auditor's management letter (including managements response to any recommendations);
- (d) review and advise the board on the Resource Accounts; and
- (e) review and approve the statement to be included in the annual report concerning internal controls and risk management.

2.2 Risk management systems, internal controls and compliance

The Committee shall:

- (a) on behalf of the board (which retains overall responsibility for the management of risk and establishing it's risk appetite) and supported by regular reports from internal audit and assurance functions, review and monitor the effectiveness of TCE's internal financial control systems and other internal control and risk management systems;
- (b) on behalf of the board, ensure that procedures are in place to effectively identify and assess the emerging and principal risks facing TCE (including those risks that would threaten TCE's business model, future performance, solvency or liquidity and reputation) and the actions being taken to mitigate those risks and oversee TCE's overall risk appetite;
- (c) review the assurance reports from management on the effectiveness of the internal control and risk management systems and from the internal audit, the external auditor and others to satisfy itself that these sources of assurance and information are objective and sufficient enough to enable the board to satisfy itself that they are operating effectively;
- (d) review the timeliness of, and reports on, the effectiveness of corrective action taken by management in response to any material external or internal audit recommendation;
- (e) review the adequacy and security of TCE's arrangements for its employees and contractors to raise a concern, in confidence (i.e. whistle-blow), 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; and
- (f) review the TCE's systems and controls for whistle-blowing and anti-money laundering and the prevention of fraud and bribery and receive reports on non-compliance.

2.3 Internal audit

The Committee shall:

- (a) approve the arrangements for the provision of internal audit services to TCE and any termination of such arrangements;
- (b) monitor and review the effectiveness of internal audit and approve the internal audit charter ensuring that it is appropriate for TCE's current needs;
- (c) review and approve the annual internal audit plan (and be advised of any changes to it) to ensure it is aligned to business's key risks and receive regular reports on work carried out;
- (d) meet regularly with the internal auditor and without management present, at least once a year
- (e) monitor and review the role and effectiveness of TCE's internal audit provision in the context of TCE's overall risk management system and satisfy itself that internal audit has unrestricted scope, necessary resources and appropriate access to information to enable it to perform effectively and in accordance with appropriate professional standards for internal auditors;
- (f) ensure internal audit has direct access to the board chair and to the Committee and is accountable to the Committee;
- (g) ensure co-ordination between the internal and external auditors;
- (h) receive a report on the results of the internal auditor's work on a periodic basis; and
- (i) review and monitor management's responsiveness to the internal auditors' findings and recommendations and management's actions to support the effective working of internal audit.

2.4 External audit

The Committee shall:

- (a) consider and make recommendations to the board, about the appointment, reappointment and management of the external auditors, subject to the requirements of The Crown Estate Act 1961 for the Comptroller and Auditor-General to certify the accounts;
- (b) oversee the relationship with the external auditor including reviewing and approving any engagement letter issued at the start of each audit, the audit plan and approve their remuneration (including fees for both the audit and non-audit services);
- (c) ensure that the external auditors are regularly assessed in terms of effectiveness, independence and objectivity;
- (d) annually review the effectiveness of the audit process and the qualifications, expertise and resources of the external auditor;

- (e) approve the provision of non-audit services by the National Audit Office (“NAO”) or any third-party auditor appointed by the NAO;
- (f) meet regularly with the external auditor and at least once a year, without management present; and
- (g) review the findings of the audit including any major issues that arose during the audit, key accounting and audit judgments and any errors identified.

3. REPORTING RESPONSIBILITIES

3.1 The Committee shall :

- (a) report to the board on its proceedings after each meeting on all matters within its duties and responsibilities; and
- (b) prepare a formal report on its activities and how the Committee has discharged its responsibilities to be included in the annual report, which shall describe the work of the Committee by reference to these terms of reference and any applicable guidance or laws.

4. MEMBERSHIP

- 4.1 The Committee shall have a minimum of three members each being a Board Member (Commissioner). It is recognised that the number of members may fall below three for temporary periods due to departures pending new appointments. The board shall appoint members of the Committee, on the recommendation of the nomination committee, in consultation with the Committee chair.
- 4.2 Each Committee member shall be an independent Board Member as determined by the board, at least one of whom shall have recent and relevant experience working with financial and accounting matters.
- 4.3 The chair of the board shall not be a Committee member.
- 4.4 The board shall appoint the chair of the Committee. In the absence of the Committee chair and/or an appointed deputy, the remaining members present at a Committee meeting shall elect one of their number present to chair the meeting.
- 4.5 The company secretary, or their nominee, shall act as the secretary of the Committee and provide all necessary support to the Committee, including the recording of Committee minutes and ensuring that the Committee receives information and papers in a timely manner to enable full and proper consideration of the relevant issues.

5. QUORUM

- 5.1 The quorum necessary for the transaction of business at a Committee meeting shall be two members, present in person or by audio or video conference.

6. VOTING ARRANGEMENTS

- 6.1 In the event of disagreement, each Committee member shall have one vote and the Committee chair shall have a casting vote, provided that a member shall not be permitted to vote if the Committee member has a personal interest (either direct or indirect). Notwithstanding the foregoing, in the case of disagreement, the Committee chair may escalate a matter to the board.
- 6.2 In the event of irreconcilable disagreement between the board and the Committee, the Committee chair may, at their discretion, escalate the matter to HM Treasury or the NAO.
- 6.3 A resolution in writing and signed (or confirmed by email) by all Committee members will be as effective as a resolution passed at a Committee meeting. Any written resolution shall be tabled and noted at the next meeting of the Committee.

7. ATTENDANCE AT MEETINGS

- 7.1 The Committee shall meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required at the request of the Committee chair or any of its members, or at the request of the Chief Financial Officer, external audit lead partner or internal audit lead.
- 7.2 Only Committee members have the right to attend and vote at Committee meetings. However, the Chief Financial Officer, internal audit lead and external audit lead partner, a representative from the NAO, Chief Executive, Executive Director Operations, Head of Risk and Assurance, Group Financial Controller and Group Head of Legal and Company Secretary shall attend meetings of the Committee on a regular basis by invitation and other individuals may be invited to attend all or part of any meetings as and when appropriate and necessary and with the agreement of the Committee chair.
- 7.3 Outside of the formal meeting programme, the Committee chair shall maintain a dialogue with key individuals involved in TCE's governance, including the chair of the board, the Chief Executive, the Chief Financial Officer, the external audit lead partner and the internal audit lead.
- 7.4 Members of the Committee shall avoid being placed in a position of conflict of interest and will declare any actual or potential conflict to the Committee chair and secretary. Attendees will only be invited to attend Committee meetings if the Committee chair is satisfied that no conflict or perception of conflict may arise.

8. NOTICE OF MEETINGS

- 8.1 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, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members at the same time, but Committee papers may be forwarded at shorter notice with the approval of the Committee chair.

9. MINUTES OF MEETINGS

- 9.1 The secretary of the Committee, or their nominee, shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 9.2 Draft minutes of Committee meetings shall be agreed with the Committee chair and then be circulated promptly to all Committee members, unless in the Committee chair's opinion it would be inappropriate to do so. Once approved, minutes shall be made available to all other Board Members and Board Counsellors unless, exceptionally, it would be inappropriate to do so.

10. GENERAL MATTERS

- 10.1 The Committee shall:
- (a) have access to sufficient resources to carry out its duties, including access to the company secretary for assistance and advice, as required;
 - (b) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;
 - (c) give due consideration to laws and regulations, the provisions of the Corporate Governance Code, relevant guidance issued by the NAO and HM Treasury and TCE's framework agreement with HM Treasury; and
 - (d) periodically review its own performance and, at least annually review its terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval.

11. AUTHORITY

- 11.1 The Committee is authorised to:
- (a) have unrestricted access to TCE's documents and information and seek any information it requires from any employee of TCE to perform its duties;
 - (b) obtain, at the TCE's expense, appropriate independent legal or professional advice on any matter within its terms of reference as it considers necessary;

- (c) investigate any matters within its terms of reference; and
- (d) have direct access to the Chief Financial Officer, internal audit lead and TCE's external auditors.

11.2 The Committee has the delegated authority of the board in respect of the functions and powers set out in these terms of reference or as further specifically delegated by the board.

Approved by the board at the board meeting held on 22 March 2023.

Date of next review: March 2024