

Audit Committee report



Since our IPO in March 2017, the Audit Committee has overseen the Company's first cycle of financial reporting and addressed areas of compliance and legislation within the committee's areas of responsibility.

Key activities relating to the 2017 financial period

- Recommended to the board that the Annual report and accounts for 2017, taken as whole, were fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy.
- Reviewed the Interim Report 2017 and recommended the same to the board.
- Monitored the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance and reviewed any significant financial reporting judgements contained in them.
- Ensured the processes and controls expected from our operating structure are embedded and working effectively, with appropriate control and independence on decision making activities.
- Appointed the external auditor after a competitive tender process.
- Reviewed and monitored the independence and objectivity of the auditor and the effectiveness of the audit process.
- Reviewed and considered the basis of the going concern and viability statement made by the directors; see page 25.
- Developed an approach on the engagement of the auditor to supply non-audit services, including the safeguarding of the auditor's objectivity and independence.
- Ensured the appropriate use of Accounting policies in the newly incorporated business with particular attention on IFRS 13 and the valuation of investment properties as well as IAS 17 and recognition of lease income.

The main matters discussed by the audit committee during the year were:

- Appointment of external auditors
- Interim report 2017 including public statement
- Audit planning for 31 December 2017
 - Materiality levels
 - Assessment of audit risks
 - Audit strategy, scope and objectives
 - Interaction with third parties on the valuation and ownership of assets and REIT compliance
 - Fair value accounting
- Accounting policies including acquisition accounting
- Scope and independence of the auditors

Committee membership

David Brooks (Chairman)*

Rupert Barclay, Rosemary Boot and Phil Hall

Rupert, Rosemary and I are considered to have recent and relevant financial experience, as we have audit, accountancy or chief financial officer experience, in addition to our various board directorships. Both Rupert and I are chartered accountants.

The board has also concluded that the audit committee as a whole has competence relevant to the sector in which the Company operates, bringing a broad range of skills and experience to bear.

Relevant experience and competence

David Brooks FCA: healthcare sector experience; senior management positions including non-executive board membership; M&A, corporate finance, accountancy and audit

Rupert Barclay FCA: senior management positions in listed and private companies, including executive and non-executive board membership; M&A and strategy

Rosemary Boot: social care and housing sectors; senior management positions in private companies, executive and non-executive board membership; M&A, investment banking and strategy

Philip Hall: healthcare, social care and real estate sectors; senior executive positions in a property company; surveying and valuation, and capex, turnaround and restructuring programmes

Audit Committee report

Role

The Audit Committee's role is to oversee the Company's financial reporting process, the valuation of the property portfolio, the Group's compliance with accepted accounting standards and other regulatory requirements as well as the activities of the auditors.

Terms of reference

We operate within defined terms of reference, which are available on our website at <http://www.impactreit.uk/documents>. The terms of reference were agreed and amended during the period to reflect the changes made to the AIC Code and Guide, legislation and best practice.

Meetings

We met twice during 2017 following the Company's corporate calendar, which ensured that the meetings were aligned to the Company's financial reporting timetable. The Company Secretary ensured that the meetings were of sufficient length to allow the committee to consider all the matters of importance and the committee was satisfied that it received full information in a timely manner to allow it to fulfil its obligations. These meetings were attended by the committee members, as well as representatives of the Investment Adviser (Impact Health Partners LLP), the Company Secretary (JTC (UK) Limited) and the auditor (BDO LLP).

I, as the committee Chairman, had regular meetings with the Company Secretary, the Finance Director of the Investment Adviser and the external auditors. Additional Audit Committee meetings are convened by the Company Secretary at my request when necessary.

In addition, as Chair of the Audit Committee, I held a number of preparatory discussions with the Finance Director of the Investment Adviser and the external auditors to ensure they delivered in line with the scope of services and were well placed to hold a constructive discussion with the Audit Committee.

Meeting attendance register

Member	Meetings eligible to attend	Meetings attended
David Brooks (Chairman)	2	2
Rupert Barclay	2	2
Rosemary Boot	2	2
Phil Hall	2	2

External auditor

During the period we considered at length the appointment, compensation, performance and independence of the Company's external auditor, BDO LLP ("BDO").

BDO was appointed as the Company's auditor following a formal tender as part of the IPO in March 2017. This was a competitive process and involved BDO, EY and Grant Thornton.

Richard Levy has been the lead audit partner since BDO's appointment. During the period we met key members of the audit team and BDO formally confirmed its independence as part of the annual reporting process. We liaise regularly with the lead audit partner to discuss any issues arising from the audit as well as its cost-effectiveness and actively challenge and negotiate the fees payable to the auditor.

We met with the auditor before the interim and annual results were prepared, to plan and discuss the scope of the audit or review as appropriate, to ensure its rigour. We then met with the auditor to discuss the details of the external audit and interim review and to consider and evaluate any findings in depth.

In assessing the performance of the auditor, we considered both the qualifications and expertise of the team proposed by BDO as well as the quality of the work produced and whether it was carried out on time and in accordance with the agreed audit plan.

We considered that the Audit team assigned to the Company by BDO had a good understanding of the Company's business. This enabled it to produce a detailed, high quality in-depth audit and permitted the team to scrutinise and challenge the Company's financial procedures and significant judgements.

The Audit Committee has recommended that a resolution to appoint BDO is proposed to shareholders at the next AGM.

Approach to non-audit work

We believe that, in some circumstances, the external auditor's understanding of the Company's business can be beneficial in improving the efficiency and effectiveness of advisory work.

In developing this approach, we have considered the Financial Reporting Council's Ethical Standard. We have reviewed the terms under which BDO is able to provide non-audit services and are satisfied with the measures put in place by BDO to preserve the Audit team's independence and to protect the confidentiality of the Company's business. Most notably, corporate due diligence is provided by separate teams within BDO and all documents and other information relating to the Company is securely stored and protected.

Of the £79,000 non-audit fees paid to BDO, the expenditure that was authorised in the period is outlined in the table below.

Work undertaken	Rationale for using the external auditor	Fee £
Reporting accountant on the Company's initial public offerings	Detailed knowledge and understanding of the business and the requirements of the exercise, having acted as reporting accountant on previous equity fundraisings for the Company. Low risk of self-interest and self-review threat, as the work is not used in the audit of the financial statements.	£60,000
Agreed upon procedures relating to 30 June 2017 interim accounts	Appointed to perform certain agreed upon procedures in relation to the 30 June 2017 interim accounts and report findings to the board.	£10,500
Audit of 30 April 2017 initial accounts of parent company	To perform the audit of the accounts of the parent company at 30 April 2017.	£8,500

The board has accepted our proposals relating to the provision of non-audit services by the auditor. We are therefore satisfied that the Audit is independent, objective and effective.

Total audit fees for the period were £73,000 and non-audit fees were £79,000. Non-audit fees as a percentage of audit fees are 108% as a result of the reporting accountants role. This is expected to reduce comfortably below 70% over a three year period.

Financial reporting and significant judgements

We monitored the integrity of the financial information published in the interim and annual financial statements and considered whether the Adviser had made suitable and appropriate estimates and judgements in respect of areas which could have a material impact on the financial statements. We sought support from the external auditor to assess these significant judgements. We also considered the processes undertaken by the Adviser to ensure that the financial statements were fair, balanced and understandable.

The Adviser and the auditor updated us on changes to accounting policies, legislation and best practice and areas of significant judgement by the Adviser. They paid particular attention to transactions which they deemed important due to size or complexity. The main areas where a significant judgement was required included the assessment over fair values of investment property, business combinations, and operating lease contracts.

Valuation of property portfolio

The property portfolio was valued by Cushman & Wakefield (CW) bi-annually in 2017, this will move to quarterly valuation in 2018.

Following production of the draft valuations by CW, the auditor met with CW to discuss and where necessary challenge the property valuations.

The Audit Committee discussed at length the approach undertaken by the auditors to gain comfort over the valuation of the assets, the methodology applied by them and the level of investigation undertaken to reach the conclusion they were satisfied with the valuation as reported. We also reviewed the assumptions underlying the property valuations and discussed these with the Adviser, and concluded that the valuation was appropriate.

The board received a copy of the valuation once it had been tested by the Adviser and after the auditor met with the Valuer.

The Company had property assets of £156.2 million at 31 December 2017, as detailed on the Group Statement of Financial Position. As explained in note 11 to the financial statements, CW independently valued the properties in accordance with IAS 40: Investment Property. The total portfolio valuation at the year end was £156.2 million.

We discussed with the auditors what could be improved in the approach undertaken in relation to the valuation. It was agreed that the move to quarterly valuations from the beginning of 2018 will improve the overall timeliness of reporting any changes in asset values. It was further agreed that there should be an established process to provide the valuer with the latest tenant trading information up to the date the valuation is finalised. This will provide comfort in future to the board, the audit committee and the auditors that the valuation is accurate and reflective of the period to which it relates. It was confirmed that this was undertaken for the current valuation but the process and approach could have been clearer.

Business combinations

At the time of acquiring a subsidiary that owns investment properties, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. Where the acquisitions are not judged to be the acquisition of a business, they are not treated as business combinations. All acquisitions in the period have been judged not to be acquisitions of a business.

Operating lease contracts

The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all significant risks and rewards of ownership of its properties and so accounts for the leases as operating leases.

Audit Committee report

Fair, balanced and understandable statements

The production and audit of the Company's Annual report and accounts is a comprehensive process, requiring input from a number of contributors. To reach a conclusion on whether the Company's annual report and accounts, taken as a whole, are fair, balanced and understandable, as required under the AIC Code, the board requested that the Audit Committee advise on whether we considered that the Annual report fulfilled these requirements.

In outlining our advice, we considered the detailed reviews undertaken at various stages of the production process by the Investment Adviser, Administrator, auditor and the Audit Committee, which are intended to ensure consistency and overall balance.

We then discussed with the Investment Adviser and Administrator the process of how this was put together and received a series of drafts of the Company's Annual report and accounts. These were scrutinised and discussed thoroughly at two separate Audit Committee meetings.

Additional comfort was also sought from the Investment Adviser and Administrator in relation to the conclusion reached by the board.

As a result of the work performed, we have concluded and reported to the board that the Annual report and accounts for the period ended 31 December 2017, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The board's conclusions in this respect are set out on page 36.

Effectiveness of the committee

An evaluation of the committee's effectiveness has not been undertaken as the Company has not undertaken a full annual cycle.

David Brooks Chairman of the Audit Committee

21 March 2018