

# Audit Committee report



## Key activities and areas of focus for the Audit Committee in 2022



Continued to oversee measures to ensure the Company's IT operating environment remained robust, supported the Company in a year of planned changes and oversaw measures to ensure it remained protected against cyber and other threats

Gained assurance on required changes to key processes and controls, particularly in relation to the New Homes Ombudsman and the Future Homes Standard

Oversaw preparations for expected changes in law and regulation affecting financial governance

Oversaw the transition to the new Head of Internal Audit

## 2023 key areas of focus

To gain assurance that management action on, and investment in, cyber security, and the programme to digitise our production procedures will further strengthen our overall control environment

To monitor the Group's readiness for the adoption of any financial governance and ongoing corporate reporting changes resulting from any regulatory requirements instigated by the Department for Business, Energy & Industrial Strategy (BEIS) or the Financial Reporting Council (FRC)

To gain assurance that key business controls, in particular segregation of duties and delegation of authority, remain effective following any business restructure

## Committee members

## Meeting attendance

<b>1. Humphrey Singer (Chair)</b>	● ● ●
2. Robert Noel <sup>(a)</sup>	● ● ●
3. Scilla Grimble	● ● ●
4. Mark Castle <sup>(b)</sup>	● ●
5. Angela Knight <sup>(c)</sup>	●

(a) Will step down from the Committee on 27 April 2023 when he becomes Chair of the Board.

(b) Appointed to the Committee on 1 June 2022.

(c) Stood down from the Committee on 26 April 2022.

Committee meetings were also attended, by invitation, by the Chair, Chief Executive, Group Finance Director, other Non Executive Directors, a Group Management Team (GMT) member, Group General Counsel and Company Secretary, other members of the Company Secretariat team, Group Financial Controller, Head of Internal Audit, Senior Internal Audit Manager, Head of Tax, Head of Group Reporting, Head of Risk, Group IT Director, and the external Auditors.

All members of the Committee are independent Non Executive Directors as required by the 2018 UK Corporate Governance Code (the Code). The Board has determined that Humphrey Singer, Chair of the Committee, has recent and relevant financial experience as required by the Code. More information can be found on page 118.

## Dear Shareholder

On behalf of the Board, I am pleased to present the 2022 report of the Audit Committee (the Committee).

The Committee fulfils its responsibilities through the activities undertaken throughout the year, as detailed on pages 117 to 118.

Committee changes

Our work has been further enhanced by the appointment on 1 June 2022 of Mark Castle, Non Executive Director. Mark brings significant operational experience, as described in more detail on page 118, which has added to our skill set; assists us in our assessment of operational risk; and has generally further enhanced the quality of our work on behalf of shareholders.

Angela Knight stepped down from the Committee on 26 April 2022, when she stepped down from her role as a Non Executive Director. During her time on the Committee, since November 2016, Angela’s broad experience of financial services and banking, and her extensive non executive director experience, contributed to the effective challenge to Management and the internal and external Auditors, and enhanced our work on shareholders’ behalf. I should like to take this opportunity to thank Angela for her contribution to our work during her period of service.

Robert Noel will succeed Irene Dorner as Chair of the Board at the conclusion of the AGM on 27 April 2023 and will step down from the Committee in compliance with the Code. At that time, the Committee and the Board will consider the composition of the Committee in relation to its annual plan and areas of focus, and assess whether an additional appointee is necessary.

Key areas of focus during 2022

The Committee’s key areas of focus during 2022 were addressed as set out below:

IT operating environment

We oversaw, and received regular updates on, progress and plans to maintain and enhance the resilience of the Company’s IT systems. This included enhancements to cyber defences and appropriate assurance that system and process enhancements were performed within an overarching continuation of robustness and resilience.

More information and detail on the Committee’s activities during 2022 in this area, can be found on page 121.

Key processes and controls

We oversaw, and received updates on, the development and introduction of key processes to enable the Company to comply with the New Homes Quality Code (NHQC) and the New Homes Ombudsman Service. This included a process whereby the Internal Audit team will monitor ongoing compliance.

Readiness for Parts L and F of the Future Homes Standard was an area of focus for the Audit Committee in 2022. This included a Change Review Panel which fed into the

updating of the Committee; and an independent review of readiness by the Internal Audit team.

More information on the Committee’s activities during 2022 in this area can be found on page 121.

Preparing for planned financial governance changes

A significant area of focus during 2022 was on the governance development referred to in last year’s Annual Report and Accounts, namely, the Government’s consultation, by BEIS, entitled ‘Restoring Trust in Audit and Corporate Governance’. The consultation proposed a number of reforms and new processes designed to improve communications and engagement between Boards, their Audit Committees and shareholders. More details are now known of the legislative and Code changes which the Government and the regulators plan to introduce, and further details of these, and the Company’s plans and preparations to comply with them, are set out on page 120.

We will continue to ensure that all applicable laws and regulations are complied with, and we remain confident that the business continues to operate in a controlled and well-managed way.

More information on the Committee’s activities during 2022 in this area can be found on page 120.

Our interim review of progress concluded that all of those key areas of focus were satisfactorily addressed or progressed during 2022.

Audit oversight

We continue to hold individual meetings with the external Auditors and with the Head of Internal Audit, independent of the Executive Directors, to discuss matters within our remit and any issues arising from the external and internal audits.

The audit of the 2022 financial results has been improved and enhanced by lessons learned, both by the external Auditors and the Company, following our detailed annual evaluation of the external audit process and the outcome of the external audit of the Annual Report and Accounts 2021.

During the year, the Company received a letter from the FRC’s Corporate Reporting Review Team following a review of the Company’s Annual Report and Accounts 2021. Whilst acknowledging the limitations inherent in the scope of their review, we were pleased to learn that the FRC did not raise any questions or queries for the Company. Some observations were made which the FRC believed could enhance existing

disclosures, and those were taken into account in the preparation of this Annual Report and Accounts 2022.

The new Head of Internal Audit is Paul Skinnider, a Chartered Internal Auditor with more than 15 years’ audit and risk experience. Paul joined us in 2020 from Lloyds Banking Group where he was interim Head of Audit and prior to that held progressively senior internal audit roles with Heineken and Oxford University Press. He is an active member of the Chartered Institute of Internal Auditors as a committee member for the profession in Scotland.

Paul’s predecessor, Anne Wilson, retired on 30 November 2022 after 20 years as Head of Internal Audit, and leaves the function in excellent health and with effective working relationships around the business, which has facilitated its dual aims of effectively auditing performance, financial outcomes, and governance, whilst also encouraging and sharing best practice between regional businesses. I wish to thank Anne for her sterling efforts on behalf of the Group and our shareholders during her period of service; to wish her well in retirement; and to wish Paul well in his new position.

Continuing compliance

Throughout the year we met the FRC guidance on Audit Committees which was incorporated into the Code. The aim of the guidance is to further improve good governance around the Committee’s competence; induction for new members; audit rotation; independent assessment of areas of judgement; and sufficiency of resourcing; all with the aim of ensuring that it is able to perform its primary function of protecting shareholders’ interests in relation to the Company’s financial reporting and internal control.

More information about how we complied with the guidance can be found on pages 117 to 123.



Humphrey Singer  
Chair of the Audit Committee

1 March 2023

Committee activities during 2022

The February 2023 meeting concluded the Committee’s activities with regard to the Group’s 2022 reporting cycle which have accordingly been included in the table below.

Topic	Activity / review	March 2022	August 2022	December 2022	February 2023
Financial reporting	Reviewed year end matters including the draft Annual Report and Accounts (and assessed the processes which ensure it is fair, balanced and understandable), significant accounting and audit issues, the draft full year results announcement and the going concern statement	●		●	●
	Reviewed the draft half year statement, including significant accounting issues, materiality, and the external Auditors’ report on the statement		●		
	Reviewed Accounting Issues and Accounting Standards in preparation for year end reporting	●		●	●
	Reviewed the proposed TCFD reporting		●		●
External audit	Recommended to the Board the re-appointment of PwC as external Auditors	●			●
	Reviewed PwC’s plan for the scope of the audit of the Annual Report and Accounts 2022, including key audit risks and regional checks conducted around the business, and the progress of the audit to date		●	●	
	Disclosed relevant audit information to the external Auditors and the required evidence in support of it	●	●	●	●
	Conducted a review of the effectiveness of the year end external audit process and reporting outcome for 2021, including PwC’s performance, and oversaw certain improvements and enhancements flowing from the review’s outcome		●		
	Reviewed and approved the external Auditors Non-Audit Services Policy	●			
Internal control and risk	Reviewed the fraud risk assessment incident and response report	●	●	●	●
	Concluded the prior year’s risk review including agreeing Principal Risks, consideration of emerging risks, and monitoring progress on mitigation actions	●			●
	Completed a detailed review of Principal, key and emerging risks, together with mitigation and assessment against the Company’s risk appetite		●	●	
	Reviewed the viability model	●		●	●
	Reviewed the Group assurance map and proposals for its further development	●		●	
	Monitored the developing BEIS recommendations and the preparations by the Company to comply with its expected new requirements in terms of legislation and amendments to the Code		●	●	●

Audit Committee report *continued*

Topic	Activity / review	March 2022	August 2022	December 2022	February 2023
Committee governance	Reviewed the Committee's performance against its Terms of Reference and objectives for the previous year and set objectives for the next year	●		●	●
	Reviewed progress on the Committee's areas of focus	●	●	●	●
	Reviewed and agreed the Committee's annual plan for the next year			●	
Internal Audit	Received activity reports from Internal Audit	●	●	●	●
	Agreed Internal Audit's programme of work for the next year	●		●	●
	Reviewed progress against Internal Audit's priorities and work plan for the year	●	●	●	●
	Received confirmation that all of the agreed actions flowing from the prior year's External Quality Assessment report had been implemented	●			
	Considered and approved the proposed appointment of the new Head of Internal Audit, including confirmation of his independence and objectivity	●			
Data and systems security	Received an update on the Group's data and systems security, technology, cyber resilience and further protective measures in relation to key business systems		●	●	
Compliance	Received an update on legal and regulatory compliance requirements across the Group and confirmation that these continued to be met		●		

In carrying out these activities, the Committee relies on regular reports from Management, Internal Audit and from the external Auditors. In monitoring the financial reporting practices, the Committee reviewed accounting policies, areas of judgement highlighted by Management and the external Auditors, the going concern assumptions and compliance with accounting standards and the requirements of the Code.

Committee meetings

The Committee met individually and privately with the Head of Internal Audit and with representatives from the external Auditors during appropriate Committee meetings in 2022, in order to discuss any matters which either may wish to raise in confidence.

The Committee has noted a shareholder advisory body's guidance as to the number of Audit Committee meetings considered to be appropriate for FTSE 100 companies such as ours. This was considered in relation to the Committee's annual plan for 2023 and we currently believe that three meetings per year remains appropriate and sufficient to effectively discharge the Committee's responsibilities. There are processes in place for the Committee to meet on additional occasions when necessary, as it did during 2020 in connection with the effective oversight of the tender of the external Auditors.

Committee purpose and responsibilities

The main objective of the Committee is to assist the Board in fulfilling its corporate governance responsibilities relating to the Group's financial reporting, risk, and internal control framework, and any other matters referred to it by the Board.

The Committee's Terms of Reference can be found on our website.

Committee competence

A key requirement of the FRC's guidance on Audit Committees is that each Committee member should have sufficient knowledge, training and expertise to contribute effectively to the Committee's deliberations.

Humphrey Singer, the Committee Chair, has been a member of the Audit Committee since December 2015 and its Chair since February 2018. He has extensive experience of the financial reporting requirements of FTSE 100 companies; of financial reporting preparation and compliance for public companies, and of dealing with internal and external auditors, from his current role as Chief Financial Officer of Belron Group and from previous roles with Marks and Spencer Group plc and Dixons Carphone plc. This depth of experience has given Humphrey insight into key areas of shareholder concern and independent experience of robustly challenging and holding Management, and the external and internal auditors, to account.

The Committee Chair is assisted on the Committee by the knowledge and experience of three other Non Executive Directors:

Rob Noel has considerable experience of the property sector and wide commercial experience as Chair of Hammerson plc and previously as Chief Executive of Land Securities Group PLC.

When he steps down from the Committee upon appointment as Chair of the Board at the conclusion of the 2023 AGM, the Committee and the Board will consider the composition of the Committee in relation to its annual plan and areas of focus, and assess whether an additional appointee is necessary.

Scilla Grimble has over 16 years' executive experience in corporate finance; is currently the Chief Financial Officer at Deliveroo plc; and brings significant financial and risk-related experience.

Mark Castle, who was appointed to the Committee on 1 June 2022, has significant operational experience in all aspects of the construction sector as Chief Operating Officer of Mace Finance Ltd and previously from executive roles at Structuretone Inc and Wates Group Ltd. This assists the Committee in its assessment of operational risk; and has generally further enhanced the quality of the Committee's work on behalf of shareholders.

The Committee is confident that its members collectively have the necessary competence relevant for the housebuilding sector and that the composition, balance, and expertise of the Committee can give shareholders confidence that the financial, reporting, risk, and control processes of the Group are subjected to the appropriate level of independent, robust and challenging oversight.

As described in the Nomination and Governance Committee Report on pages 108 and 109, there is a formal process of induction for new Directors which includes specific reference to supporting competence in relevant Committee areas through exposure to the appropriate areas of the Group's operations and performance. Mark Castle's induction included meetings with the external Auditors; the Head of Internal Audit; the Group Finance Director; the Group Financial Controller; the IT Director; and appropriate external bodies such as the Company's brokers in relation to financial reporting. The same thorough induction process, suitably tailored as appropriate to the appointee's experience and expertise, will be undertaken by any new Non Executive Directors appointed to the Committee.

Committee evaluation

The Board Evaluation for 2022, which is described more fully on pages 112 and 113, included an appraisal of the performance of the Audit Committee and individually of its Chair and other members.

The outcome of the appraisal was that the Committee was considered to continue to operate effectively; with the necessary level of expertise; with no specific actions arising requiring further improvement; and is chaired effectively and in a way that ensures a good level of debate and positive challenge.

External Auditors

Re-appointment

PwC was appointed as the external Auditors at the 2021 AGM and concluded its first audit with the publication of the Company's Annual Report and Accounts 2021. The Audit Partner is Sonia Copeland.

The Committee considers that the relationship with PwC is well established and is satisfied with the effectiveness of the overall external audit process. PwC's performance has been kept under regular review by the Committee and reported to the Board as appropriate.

A full evaluation of PwC's performance in relation to the audit of the full year results for 2021 was performed. This included a questionnaire being distributed to the Board and key stakeholders in the audit process to evaluate the effectiveness of the external

audit process. The Committee also considered the nature and extent of the non-audit work performed by PwC during the year. In addition, the Committee considered whether PwC had appropriately challenged Management estimates and judgements. The Auditors' report (starting on page 152) details the key matters that were considered as part of the year end audit. This includes details of the procedures performed by PwC to assess the estimates and judgements made by Management.

In particular the Committee noted during the course of the audit that the external Auditors challenged Management's judgements and assertions on the following matters:

- Margin recognition and site forecasting.
- Cladding fire safety provision.
- Defined benefit pension valuation.

In relation to each of these judgements the external Auditors confirmed that the approach adopted by Management in accounting for these in the financial statements was appropriate.

The Committee considered the responses to all these areas of assessment, and concluded that the audit process continues to be effective; that the quality and sufficiency of the resources provided by PwC's engagement team remains appropriate; that PwC remains independent; and that there continues to be effective and independent reporting lines available to the external Auditors direct to the Committee and its Chair.

The Committee also assessed Management's proposals for incorporating into the Annual Report and Accounts consideration of material climate-related matters, and whether these had been considered by the external Auditors as part of their audit. More details appear on pages 54 to 69 and 156.

Based upon its assessment, as set out above, the Committee recommended to the Board, which in turn is recommending to shareholders in Resolution 12 at the 2023 AGM (on page 210), that PwC should continue as external Auditors to the Company.

The Company will of course keep the matter under regular review, taking into account the annual performance review to be conducted by the Committee in 2023.

The recommendation of PwC was free from influence by a third party and no contractual term of the kind mentioned in Article 16(6) of the Audit Regulation has been imposed on the Company whereby there would be a restriction on the choice to certain categories or lists of audit firms in the Company's selection of its external auditors.

Appointment of the external Auditors for non-audit services

The Committee has a formal policy, reviewed on a regular basis, as to whether the Company's external Auditors should be employed to provide services other than audit services. In line with the Code, the Committee has regard to the relevant ethical guidance regarding the provision of non-audit services by PwC.

A review of the policy has been undertaken and it was confirmed that the policy is in accordance with the Revised Ethical Standard 2019 (the Standard) issued in December 2019 by the Financial Reporting Council (FRC), which limits the non-audit services which the external Auditors may provide to the Company.

In all circumstances where it is proposed to engage the external Auditors to perform non-audit work in accordance with this policy, this is subject to the approval of the Audit Committee after it has properly assessed potential threats to the independence of the external Auditors and the safeguards applied in the Standard.

The Board, acting on guidance from the Committee following its review of the continuing effectiveness of this policy, is satisfied that it meets the Standard, and will be conducive to the maintenance of good governance, best practice and auditor independence and objectivity.

PwC undertook non-audit services in the form of assurance work carried out in connection with the announcement of the Company's 2022 half year results. This non-audit service is of direct benefit to shareholders. PwC also made available access to its subscription service providing online technical resources such as factual updates and changes to applicable law, regulation, and accounting and auditing standards, at a notional value of £2,000.

The Committee recognises and supports the importance of the independence of auditors. It reviewed PwC's performance of non-audit services during 2022 and is satisfied that it did not, and will not going forward, impair the independence of the external Auditors. As a result, the value of non-audit services work by PwC was £0.1 million in 2022 (2021: £0.1 million) which represents approximately 10% of the audit fee as set out in Note 6 to the Accounts on page 173.



Internal Audit

Internal Audit's primary role is to support the Board and the Group Management Team (GMT) to protect the assets, reputation and sustainability of the Group. The function is led by the Head of Internal Audit who directly reports to the Chair of the Audit Committee, with a secondary reporting line to the Group Finance Director, and has regular direct contact with the Chair of the Board, the Chief Executive and other Executive Directors, as required. The reporting line to the Chair of the Audit Committee protects the function's independence.

The most recent independent evaluation of Internal Audit's independence and performance was carried out during 2021, as described in the Annual Report and Accounts 2021, and found that Internal Audit continues to operate effectively, with no areas of non-conformance with recommended practice as set out in the International Professional Practice Framework. Continuous improvement initiatives agreed at that time, have been implemented, to ensure the Internal Audit function continues to meet both current best practice and the evolving needs of the Group.

Internal Audit reviews the effectiveness and efficiency of the systems of internal control in place to safeguard the assets; to quantify, price, transfer, avoid or mitigate risks; and to monitor the activities of the Group in accomplishing established objectives.

The Internal Audit plan, and the individual audits conducted in line with the audit plan, are driven primarily by the Group's strategy and its key risks. Following each review, an Internal Audit report is provided to both the Management responsible for the area reviewed and the GMT. These reports outline Internal Audit's opinion of the management control framework in place together with actions proposed or made, as appropriate, where improvements are recommended. The Chief Executive, the GMT and Senior Management consider the reports on a regular basis and are responsible for ensuring that improvements are made as agreed. A database of audit recommendations and improvement initiatives is maintained. Follow-up and escalation processes ensure that such improvements are implemented and fully embedded in a timely manner. Summaries of all Internal Audit reviews and other key activity and resulting reports are also provided to the Audit Committee for review and discussion.

The Group belongs to and participates in industry-wide forums and other initiatives aimed at combatting fraud within the housebuilding and construction industry.

The Internal Audit function also reviews proposed related-party transactions, including employees' house purchases from the Group, to provide assurance that the formal policy and proper procedures are followed.

The Internal Audit and Company Secretariat teams work together to consider any longer term revisions to the governance processes and working environment. The learnings and improvements from this activity are continuously considered as part of the ongoing control and risk processes and this activity will continue through 2023.

During the year, the Committee assessed and confirmed the continuing independence and objectivity of Anne Wilson, prior to her retirement as the Head of Internal Audit, in compliance with the Internal Audit Code of Practice, due to her having then been in post for over seven years.

Preparation for planned financial governance changes

A key legislative and regulatory change proposed by the Government will result from the measures proposed by BEIS arising from its consultation into restoring trust in audit and corporate governance.

Preparations continue for the expected changes in financial governance resulting from this consultation.

A draft Audit and Assurance Policy has been prepared and was discussed at the Committee's December 2022 meeting.

A Group assurance approach has been developed, as described on page 122 and its proposed reporting approach has been considered by the Committee.

The process for addressing these new requirements will be re-assessed in light of any changes to them, or the timeline for their introduction; reviewed to assess their appropriateness; and any changes managed through the established project governance.

These actions have been monitored by the Committee during 2022 and will continue to be monitored into 2023, when we expect to be able to report in greater detail as to their scope and impact on the Company, its assurance processes, and its future financial reporting.

Risk management and internal control

The Group has an established ongoing process of risk management, which is detailed further on pages 72 to 79. The Committee monitors the Group's risk management and internal control systems, including their effectiveness, on behalf of the Board and provides advice to the Board in connection with the Board's own risk review.

The Committee's objectives in relation to risk are:

- To ensure the Group's risk profile remains within its agreed risk appetite and tolerance levels and is adequately monitored and reviewed as appropriate to reflect external and internal changes.
- To give early consideration to the Government's proposals in relation to a new regime for the strengthening of internal controls requirements over financial, operational and compliance controls.
- To continue to develop the Group's risk processes in light of evolving best practice.
- To consider emerging risks that could impact on the Group's longer term strategy.

To achieve these objectives, the Committee undertook the following during 2022:

- Detailed risk reviews were conducted twice during the year, at the Committee's August (half year) and December (full year) meetings and covered both the systems used and the reported risks.
- Regular updates were received on the continuing review of relevant historical and current developments and actions taken by the Group to comply with the Government guidance on fire safety. This included assessing and advising the Board, following the decision to sign up to the Government's Building Safety Pledge for Developers, on the continuing appropriateness and sufficiency of the associated provision, and reviewing updates on usage and the balance of the provision during the year.
- Updates were received on key IT risks, including the resilience of the Group's systems to cyber attack and action taken to maintain security of systems and data.
- Advised the Board in its assessment of emerging risks, including potential velocity and impact on the Group's longer term strategy, further details of which can be found on page 74.

Detailed risk reviews were conducted twice during the year, at which the Board, with advice from the Committee, considered the outputs from a bottom-up and top-down review of risk in all areas of the business. This included taking account of ESG considerations, and climate change, over various time horizons. These assessments use an established methodology and include regularly reviewing the effectiveness of the Group's system of internal control in providing a responsible assessment and mitigation of risks.

The Committee also oversaw the further embedding of improvements identified in last year's Audit Committee report in the area of risk. These related to the processes for identifying, assessing, monitoring, reporting, and managing the residual elements of risk, the enhanced reporting of action plans, and target risk for the identified key risks.

Action to mitigate the effect of each risk is led by the Chief Executive in conjunction with the relevant member of the GMT.

During the year, Internal Audit concluded a review of the risk management process and identified enhancements which will be implemented during 2023 to further strengthen and embed the process across the Group.

Those systems cannot eliminate risks but rather seek to manage both the likelihood of their occurrence and the extent of their impact and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Principal Risks facing the Company and the Group, as assessed by the Board, are set out on pages 75 to 79 together with information on the mitigations for each risk.

The Committee also oversees the actions being taken to monitor IT initiatives which aim to either directly protect against and reduce the risk of cyber-related attacks and fraud; support and enhance the current IT environment including data protection; or that are crucial in their contribution to key business initiatives aiming to enhance the experience of customers, suppliers and/or employees.

At its meeting in February 2023, the Board, having conducted its own review and after reviewing more detailed assessments from the Audit Committee, remained satisfied that the system of internal control continued to be effective in identifying, assessing, and ranking the various risks facing the Group; and in monitoring and reporting progress in mitigating their potential impact on the Group.

The Board also approved the statement of the Principal Risks and uncertainties set out on pages 75 to 79 of this Annual Report and Accounts.

IT operating environment

Cyber resilience

A Principal Risk area identified by the Board is the potential vulnerability of the Group's IT systems to the various forms of cyber attack and a key area of focus for the Committee during 2022 was continuing to ensure that the IT operating environment remained robust, supporting the business needs in a year of planned changes to core systems and also that key systems were protected against cyber and other threats.

The Head of Internal Audit attends the IT Steering Committee meetings; and Internal Audit is represented on key project drivers, including the upgrade of the financial consolidation system and the bank payment system.

The main enterprise resource planning system, COINs, was upgraded during 2022 and both hardware and software improvements were completed.

There is continued focus on cyber threats and system resilience generally, including the successful testing by an independent third party and implementation of further improvements derived therefrom.

Read more about cyber risks and our response and mitigation processes on page 79.

Key processes and controls

Another key area of focus for the Committee during 2022 was gaining assurance on required changes to key processes and controls that might have been affected by known legislative changes impacting the industry through 2022 and into 2023, in particular the New Homes Ombudsman Service and the Future Homes Standard.

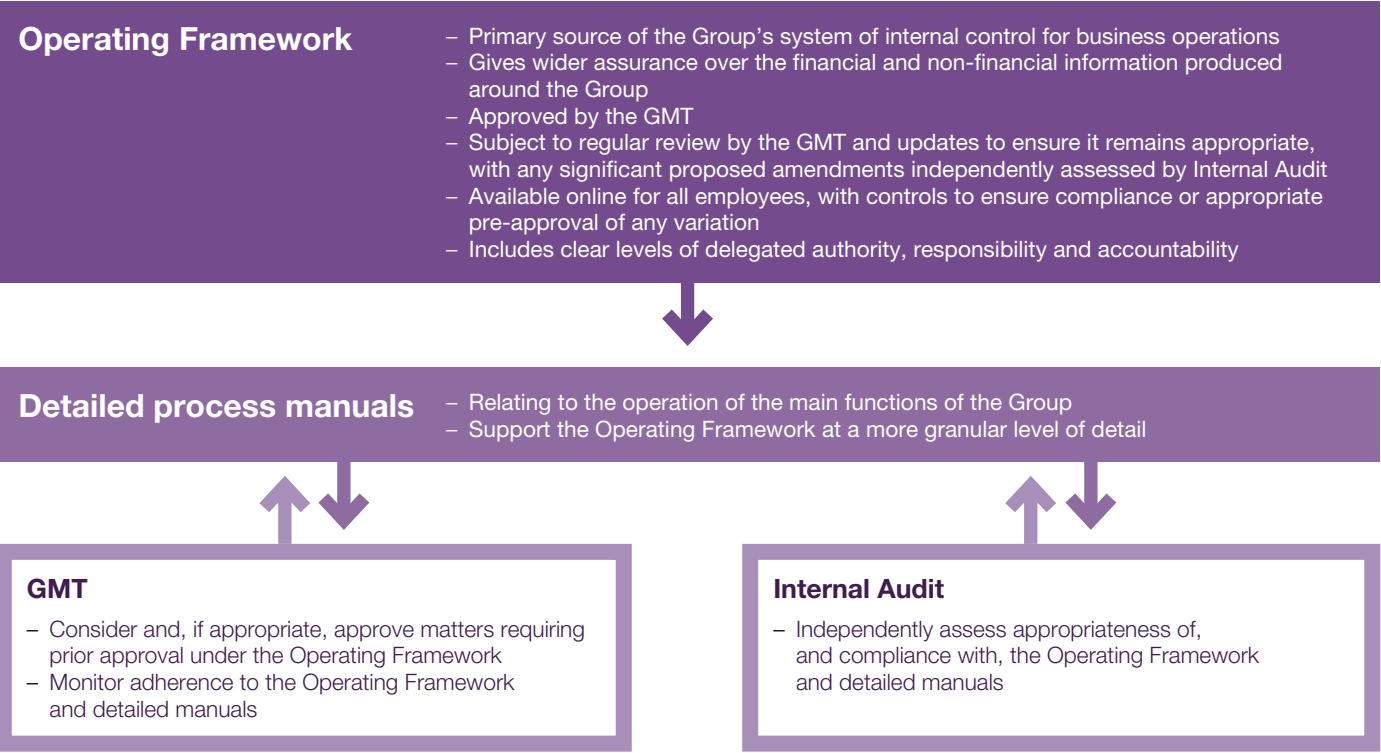
Key processes to enable the Company to comply with the NHQC and the New Homes Ombudsman Service, were successfully introduced across the business. These included mandatory training for employees and subcontractors; updating procedures and systems to reflect the NHQC requirements; and automation of the processes.

Internal Audit will monitor performance of, and compliance with, NHQC mandatory requirements.

Readiness for Parts L and F of the Future Homes Standard was an area of focus for the Audit Committee in 2022. To gain assurance over our readiness, a Change Review Panel was established, chaired by a member of the GMT and supported by relevant Heads of Functions and subject matter experts. The Panel worked in conjunction with the Group's established governance forums around change projects - its remit was to determine whether the change was appropriately understood, risk assessed and managed appropriately. The Panel Chair attended the August 2022 Committee meeting and shared their observations and next steps. Internal Audit has included in their work plan a thematic review of our readiness, which included testing key processes and controls around site layouts, build routes and budgeting. The conclusion from Internal Audit's work was that the changes and impact were well understood by regional businesses' management teams and that appropriate assessments and plans were in place and costed. There will be continued focus from the Committee on the implementation of these changes during 2023.

Group assurance approach

The overall structure of the Group’s internal controls and assurance processes are as set out below:



Group assurance map

A Group assurance map has been developed to provide a summary of the three lines of assurance to the GMT, the Audit Committee and Board. Assurance is mapped against our recognised key risks and it is based on a comprehensive and shared view as discussed with appointed risk owners together with Heads of Function and others who have key oversight responsibilities. This then enables the GMT, the Audit Committee and the Board to identify and confirm their assurance needs and any actions required to fulfil those needs.

Going concern

The Group has prepared forecasts, including various sensitivities, taking into account the Principal Risks and uncertainties identified on pages 75 to 79. Having considered these forecasts, the Directors remain of the view that the Group’s financing arrangements and capital structure provide both the necessary facilities and covenant headroom to enable the Group to conduct its business for at least the next 12 months. The Committee reviewed the forecasts and the Directors’ expectations based thereon and agreed that they were reasonable. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Read more about our Principal Risks on pages 75 to 79.

Viability statement

The viability statement is designed to be a longer term view of the sustainability of the Group’s strategy and business model and related resourcing, in light of projected wider economic and market developments. The Committee considered whether there should be any change to the five-year period chosen for the statement but remained of the opinion that this continued to be appropriate, taking into account the balance sheet strength and confirmation from the Executive Directors that this period continues to broadly align to the development cycle for new land. The Committee also reviewed the Executive Directors’ expectations; the criteria upon which they were based; and the sensitivities applied, including how these linked to the Principal Risks faced by the business; and agreed that they were reasonable.

The statement appears on pages 84 to 85 together with details of the processes, assumptions and testing which underpin it.

Annual Report and Accounts 2022

Fair, balanced and understandable

A key requirement of our financial statements is that they are fair, balanced and understandable, and that they include the information necessary for shareholders to assess the Group’s position, performance, business model and strategy.

The Committee monitors the integrity of the Group’s reporting process and financial management, and reviews in detail the work of the external Auditors and any significant financial judgements and estimates made by Management.

It considers the output from the above and reviews the full year and half year financial statements before proposing them to the Board for consideration.

The review of the Company’s Annual Report and Accounts took the form of a detailed assessment of the collaborative process of drafting them, which involves the Company’s Investor Relations; Company Secretariat; and Finance functions, with guidance and input from other relevant functions and external advisers. It ensured that there is a clear and unified link between this Annual Report and Accounts and the Company’s other external reporting, and between the three main sections of the Annual Report and Accounts.

In particular, the Committee:

- Reviewed all material matters.
- Ensured that it correctly reflected the Group’s performance in the reporting year.
- Ensured that it presented a consistent message throughout.
- Ensured that it correctly reflected the Group’s business model.
- Ensured that it correctly described the Group’s strategy.
- Considered whether it presented the information in a clear and concise manner, illustrated by appropriate KPIs, to facilitate shareholders’ access to relevant information.

Significant items

The following items are those that the Audit Committee has considered in discharging its duties and in considering the financial reporting of the Group:

Margin recognition and site forecasting

The cost allocation framework used across the Group controls the way in which the inventory is costed and allocated across each development. It also ensures that any costs incurred in excess of the original budget are recognised appropriately as the site progresses.

The Committee reviewed reports and recommendations from the GMT in relation to areas of the business recognising cost excesses, and also reviewed the work undertaken by PwC which included testing of the Group-wide controls to monitor cost allocation. The Committee gave careful consideration to the judgements and assumptions involved, challenging Management where appropriate.

Following these reviews, together with enquiries of the GMT and the external Auditors, the Committee concluded that there continued to be appropriate systems and internal controls in place, which ensured that consistent principles were applied, the treatment and presentation on the income statement of the costs incurred by the business were appropriate, and that the external Auditors agreed with the conclusions reached.

Defined benefit pension valuations

The Committee reviewed the funding position of the Taylor Wimpey Pension Scheme and discussed and agreed the market-based assumptions used to establish the net pension deficit recognised on the balance sheet at 31 December 2022.

Cladding fire safety provision

The Committee reviewed and challenged Senior Management’s assessment of the costs to comply with the obligations of the Pledge (entered into on 5 April 2022) whereby the Company is pledging to bring all Taylor Wimpey apartment buildings built since 1992 into line with EWS1 guidance, as described in more detail on page 81. The Committee also reviewed updates on the progress of the rectification of buildings identified with Aluminium Composite Material cladding, together with utilisation and estimates of the remaining provision. The Committee was satisfied that the provision represented Management’s best estimate of the expected remediation costs.

Recommendation to the Board

The outcome of the above processes, together with the views presented by PwC, was that the Committee recommended, and in turn the Board confirmed, that the Annual Report and Accounts 2022, taken as a whole, is fair, balanced and understandable, and provides the necessary information for shareholders to assess the Company’s position, performance, business model and strategy.

More detail on how the Board and the Audit Committee have addressed the assessment, control and mitigation of risk, and the oversight of the internal and external audit functions, appear in this Audit Committee report.

Statement of compliance

The Company has complied throughout the reporting year with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.