

Audit Committee Report



Matthew Lester
Chair of the Audit Committee

AREAS OF FOCUS

Governance

- Committee governance
- Best practice developments
- People and business changes

Financial reporting

- Content and integrity of annual and other periodic financial reporting
- Application of Alternative Performance Measures and reconciliations to IFRS reported financials
- Annual Report presentation: fair, balanced and understandable
- Accounting policies
- Key accounting judgements and estimates
- Going concern and viability

External audit

- Appointment and remuneration of external auditors
- Independence and objectivity
- Audit scope, quality and effectiveness
- Audit firm and leadership rotation and tender process

Internal controls and internal audit

- Financial operations: leadership, effectiveness
- Framework of internal controls over financial reporting
- Material controls underlying overall risk management, in conjunction with the Risk Committee
- Scope, planning, activities and resources of Internal Audit

Committee members

- Rosemary Leith
- Matthew Lester (Chair)
- Rusty Nelligan
- Kathryn Purves (until 1 April 2023)
- Amy Schioldager
- Andrew Sykes (from 30 January 2023)

The purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities relative to the integrity of financial reporting and effectiveness of internal controls. We oversee the Group's financial reporting and related elements of its accounting, disclosures, internal controls and regulatory compliance, in addition to the internal and external auditing processes.

Dear shareholders

I am pleased to present the Committee's report for the year ended 31 March 2023. Separate sections on Committee governance, Review of the year, External audit, Internal controls and Internal audit follow.

I would like to thank my predecessor, Rusty Nelligan, for his service as Chair of the Committee over the last six years. He has overseen significant enhancements to the system of internal controls, ensuring this matured appropriately to reflect the underlying business activities, and the successful transition of the external audit to EY.

My focus, as incoming Chair, is the effective oversight of the system of internal controls over financial reporting. The Committee works closely with the Risk Committee to assess any potential deficiencies identified by management, internal and external audit, the remediation of any issues and considers whether disclosure is required in accordance with the Corporate Governance Code.

The Group has grown significantly, and this backdrop, together with the nature of the underlying activities, has resulted in a complex operating environment which includes a number of manual processes. The financial reporting and audit risks which result are well understood, and the Committee is actively monitoring the changes being implemented by management to mitigate and manage these. The Committee notes that, while those changes will mitigate the risks arising, these risks cannot be completely eliminated, as we have seen this year. I would like to acknowledge the work done by management to further enhance the control environment, which continues to be materially effective, and look forward to working closely with the business as it continues to streamline and systematise in support of growth. I will report on progress in future years.

For the year ended 31 March 2023 a particular consideration of the Committee is the valuation of assets. In the light of considerable mark-downs in public markets during this period we have challenged management to demonstrate the effectiveness of controls over valuation and satisfied ourselves that those valuations are fair.

The Audit Committee has continued to coordinate with the Risk Committee and the Remuneration Committee with the aim of effectively covering pertinent topics in the most suitable forum.

The Committee plays a vital role in assisting the Board in its oversight responsibilities for the integrity of financial reporting, effectiveness of internal controls, and assessment of quality of the assurance functions. I would therefore be pleased to discuss the Committee's work with any shareholder.

Matthew Lester
Chair of the Audit Committee
24 May 2023

Committee governance

On behalf of the Board, the Committee encourages and seeks to safeguard high standards of integrity and conduct in financial reporting and internal control.

Our work focuses on the evaluation of significant estimates and judgements underlying the financial statements and the overall fairness and clarity of reported financial information.

Roles and responsibilities

The Committee meets regularly, at least four times a year. It is responsible for:

- Reviewing the annual and interim accounts before they are presented to the Board, in particular addressing any significant issues arising from the audit; accounting policies and clarity of disclosures; compliance with applicable accounting and legal standards; and information used in making significant judgements, including fair values, going concern and viability
- Monitoring the integrity of the financial statements of the Group, including its annual and half-yearly reports, trading updates and any other formal announcements relating to its financial performance, and advising the Board whether it considers the Annual Report to be fair, balanced and understandable
- Selecting and recommending the appointment and reappointment of the external auditor, including tenders where necessary; and negotiating and agreeing audit fees and scope of work
- Reviewing the performance of the external auditor in respect of scope of work, reporting, and quality of audit and overall service
- Reviewing independence, including key-partner rotation, and remuneration of the external auditor and the relationship between audit and non-audit work
- Approving the appointment or termination of the Head of Internal Audit; approving the internal audit charter; and monitoring the effectiveness of the internal audit function in the context of the Group's overall risk management framework
- Reviewing and assessing the annual internal audit plan and resources, receiving and evaluating internal audit reports, and monitoring management's responsiveness to internal audit findings and recommendations

In carrying out its duties, the Committee is authorised by the Board to obtain any information it needs from any Director or employee of the Group.

Composition

The Committee consists of independent NEDs only. The current members are Matthew Lester (Chair of the Committee), Rosemary Leith, Rusty Nelligan, Kathryn Purves (until 1 April 2023), Amy Schioldager and Andrew Sykes. Biographical details can be found on pages 78.

The Committee members have a wide range of business and financial experience, including accounting and auditing, risk management, asset management and investment, regulation and compliance, M&A, tax and international business practices. These skills ensure the Committee has the relevant sector competence to enable it to fulfil its terms of reference in a robust and independent manner. In particular, Matthew Lester has considerable experience as a CFO, Chair and Audit and Risk Committee Chair. The Board considers that he has recent and relevant financial experience.

The Executive Directors and Chairman of the Board are not members of the Committee but regularly attend meetings at the invitation of the Chair of the Committee, together with EY, the Group's external auditor, the Head of Internal Audit, the Head of Finance and the Head of Risk.

The Committee meets separately with the external auditors and Head of Internal Audit without management present at least twice a year to ensure that they are receiving full cooperation from management, obtaining all the information they require, and are able to raise matters directly with the Audit Committee if they consider it is desirable to do so.

In addition, the Chair of the Committee meets with the external auditors, Head of Internal Audit, Executive Directors, and other members of financial and operational management separately, and as appropriate, throughout the year.

Terms of reference

The Committee's terms of reference are approved and reviewed by the Board on a regular basis, most recently in May 2023. The terms of reference are available on the Group's website www.icgam.com, or by contacting the Company Secretary.

Effectiveness

The operations of the Committee were reviewed as part of the internal Board evaluation led by the Chairman in March 2022; the Committee was found to be operating effectively. For more details of this exercise, please see page 83.

Summary of meetings in the year

The Committee held four meetings during the year. The Committee members attending each of the meetings can be found on page 82.

Review of the year

The agenda of the Committee comprises recurring, seasonal and other business. Over the course of the year, the Committee considered and discussed the following significant matters:

The matter and its significance	Work undertaken	Comments and conclusion
<p>Performance measures Alternative performance measures can add insight to the IFRS reporting and help to give shareholders a fuller understanding of the performance of the business</p> <p>See KPIs on page 18 and the Finance review on page 54</p>	<p>The Group uses a number of alternative performance measures, including but not limited to:</p> <ul style="list-style-type: none"> • Cash and debt position • Cash generated from operating activities • Gearing • Balance sheet investment portfolio • Net investment return • FMC operating margin <p>A full list can be found in the glossary on page 207. Strategic KPIs that are alternative performance measures are detailed on page 18.</p> <p>We discussed the use of alternative performance measures with the Executive Directors and the external auditor and reviewed their continued appropriateness and consistency with prior years.</p>	<p>We were satisfied that alternative performance measures, which are widely used in the asset management industry, can provide insight into performance from the perspective of our shareholders and other stakeholders.</p> <p>A review of the alternative performance measures was undertaken and we were satisfied that they did not detract from IFRS measures and were: sufficiently defined; consistently applied; and, where relevant, reconciled to IFRS measures.</p>
<p>Consolidation of investments in structured entities The Group holds investments in a number of structured entities which it manages. Judgement is required in assessing whether these entities are controlled by the Group and therefore need to be consolidated into the Group's financial statements</p> <p>See note 28 and the Auditor's Report on page 133</p>	<p>We challenged the information analysed by management to assess which third-party funds, carried interest partnerships, and portfolio companies are either controlled by the Group or over which the Group exercises significant influence.</p>	<p>We concluded that the Group controlled 63 warehouse-related entities, 19 funds and two carried interest partnerships. The Group exercised significant influence over six other entities during the financial year. Accordingly, the controlled entities have been consolidated into the Group's financial statements. This has had the impact of grossing up the balance sheet for IFRS compared to APM, with total assets increased by £5.2bn (2022: £4.8bn) and total liabilities increased by £5.1bn (2022: £4.8bn).</p> <p>The Committee concluded that the accounting policies and disclosures were appropriate and had been updated properly.</p> <p>Based on our inquiries of the Executive Directors and external auditors, we concluded policies are being properly applied in areas such as assessing control and significant influence.</p> <p>We concluded that the areas of judgement (see page 151) are properly explained. We gained comfort from the Executive Directors and the external auditors that the Group complied with its reporting requirements.</p>

The matter and its significance	Work undertaken	Comments and conclusion
<p>Investment valuation</p> <p>Investments in funds managed by the Group, in warehoused assets, in senior and subordinated notes of CLO vehicles and in disposal groups held for sale represent 84.2% of our total assets under IFRS. As the assets are mainly unquoted and illiquid, considerable professional judgement is required in determining their valuation</p> <p>See notes 5 and 10 to the financial statements and the Auditor's Report on page 133</p>	<p>The Committee received reports summarising the conclusions of the Group's Valuation Committee (GVC) and challenged the judgements made. The Committee paid particular attention to the valuations requiring considerable professional judgement, with direct input from the Chief Investment Officer on market conditions and relevant sector and company insights.</p> <p>Management determined that the most appropriate valuation methodology was applied to ensure that the investments were valued in accordance with the Group's accounting policies, which remain unchanged, and International Private Equity and Venture Capital Valuation or other relevant guidelines where applicable.</p> <p>The Committee inquired into the progress of ongoing asset realisations after the year end as an indicator of the reliability of the valuation process.</p> <p>In addition to the Executive Directors' procedures and the work of the external auditors, internal audit periodically reviews the valuation process and provides the appropriate assurance to the Committee of the Executive Directors' compliance with the Group's valuation policies, process and procedures.</p>	<p>The Committee reviewed the conclusions of the GVC, carefully considering the impact of the current economic environment on the judgement required.</p> <p>We reviewed the methodologies used to value the Group's investments and concluded that the valuations had been performed in line with the accounting policies.</p> <p>In our review of the financial statements we were satisfied that sufficient disclosures had been provided on the estimates and judgements made in determining the value of the portfolio.</p>
<p>Revenue recognition</p> <p>Revenue recognition involves certain estimates and judgements, particularly in respect of the timing of recognising performance fees, which are subject to performance conditions</p> <p>See note 3 to the financial statements and the Auditor's Report on page 133</p>	<p>We reviewed the revenue recognition of management fees, performance fees and investment income to confirm that the treatments were consistent with the Group's accounting policies.</p>	<p>The Committee concluded that revenue has been properly recognised in the financial statements.</p>

In addition to the significant matters addressed above, the Committee also considered the impact of an operational error reported by management which led to understatements of revenue and cash and overstaterments of trade receivables and financial assets in the prior year. The Committee carefully reviewed the nature and quantum of the errors and took external advice. The Committee was satisfied that the impact was not material to users of the accounts and consequently these immaterial items, where relevant, were reported in the current year. In addition, the Committee maintained a rolling agenda of items for its review including auditor independence and external audit effectiveness, internal audit, capital strategy, risk and treasury management capabilities, financial and management reporting (including any changes to the Group's accounting policies), accounting developments, relevant people changes, the going concern concept of accounting (see pages 127 and 151), the viability statement (see page 73), the Auditor's Report (see page 133), the Auditor's management letter and the fair, balanced and understandable assessment of the Annual Report. No issues of significance arose.

External audit

The Group complies with the UK Corporate Governance Code, the FRC Guidance on Audit Committees and the EU Regulation on Audit Reform. In addition, we comply with all aspects of the Competition and Markets Authority Statutory Audit Services Order.

Appointment and rotation

The Group's policy is to submit the external audit to tender every 10 years, as a fair balance between the costs and disruption of a tender and the benefits of a potential fresh pair of eyes and challenge, and for the external audit firm to be rotated at least every 20 years. The next tender must be completed for the financial year ended 31 March 2031.

Execution, quality and effectiveness

The Committee discusses and agrees the scope of the audit prior to its commencement.

The Committee reviews with EY the risks of material misstatement of the financial statements and confirms a shared understanding of these risks. While planning the audit, EY sets out the key tests that they perform on the higher-risk areas, and the Committee provides input on areas that it wants to receive particular attention.

The Committee Chair meets the lead audit partner regularly during the year and more frequently at the public reporting periods, to review Group developments and audit progress. The Committee also discusses with EY, prior to recommendation of the financial statements to the Board, the audit findings, including audit differences, and observations on internal controls, operations and resources. This includes discussions in private sessions without the Executive Directors present.

In assessing the quality and effectiveness of the external audit, the Committee considers the audit team's demonstrated competence, experience, diligence, objectivity, professional scepticism, current knowledge and its relationship with the Executive Directors and senior management. In particular, the Committee assesses the depth of review and level of challenge provided by the external auditors over the significant judgements and estimates made by management.

The Committee observed healthy debate initiated by EY, and received high-quality reports with detailed information on the scope and results of their work, including challenge to management judgements, estimates and assumptions. The Committee gained valuable insight from EY on the nature of operations underlying the Group's production of financial information, and received a current assessment of internal controls over financial reporting, to the extent observed as a by-product of their audit of the consolidated financial statements.

The overall assessment of audit quality includes an annual evaluation of the independence and objectivity of the external auditor and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements. This assessment is based in part on results of observation, inquiry and challenge, throughout the year, as well as periodic reflection and input collected separately from Committee members, Executive Directors and other relevant senior management. The annual evaluation of EY was undertaken by the Committee in September 2022.

In addition to the annual evaluation and regular review of reports and the working practices of the EY audit team, the Committee undertakes an ongoing assessment of external audit quality and effectiveness including, but not limited to, the following:

- The content of EY's annual Transparency Report which sets out their commitment to audit quality and governance
- Insights arising from the Audit Quality Review team (AQRT) of the Financial Reporting Council's annual audit of a sample of EY's audits. Following discussion with EY, insofar as any issues might be applicable, the Committee determines that EY has proper and adequate procedures in place for the audit
- The formal terms of engagement with the auditor, and the audit fee. The Committee determined that the Group audit fee of £1.9m (2022: £1.8m) appropriately reflected the scope and complexity of the work undertaken by EY

On the basis of this review and our ongoing interactions and observations, the Committee remains confident in EY's work and the Committee are satisfied that the audit is probing, challenging and effective and that the approach provides a reliable audit opinion with a reasonable expectation of detecting material errors, irregularities and fraud.

Non-audit services

The Board has an established policy setting out what non-audit services can be purchased from the firm appointed as external auditors. A copy of the policy can be found on the Group's website, www.icgam.com. The Committee monitors non-audit services provided to the Group by EY to ensure there is no impairment to their independence or objectivity.

During the year, the Group paid £0.4m (2022: £0.2m) to EY for the provision of corporate non-audit services. Of the fees, £0.3m (2022: £0.2m) is in respect of services in their capacity as auditor. The ratio of non-audit services to 70% of audit fees on a three-year rolling basis was 0.15:1 (2022: 0.13:1). A detailed analysis of fees paid by the Group to EY is shown in note 12 on page 169.

The Committee is satisfied that the services provided do not impair the independence of the external auditors.

Internal controls

Risk management and internal control matters are the responsibility of the Group's Risk Committee. Its report is set out on page 90.

The Group has an established control framework, designed to manage but not eliminate risks and provide reasonable but not absolute assurance against material losses or misstatements.

Effectiveness of controls

The Committee reviews the effectiveness of the financial control environment, including controls over our financial reporting and the preparation of financial information included in the Annual Report, taking into consideration the reports from internal audit, any areas where there has been a reported breach of an internal control and input from external sources, in particular the auditors. The Committee works closely with the Risk Committee to review the system of internal controls (see page 92).

The Committee reviews the operation of the finance function to ensure it is sufficiently resourced and has the appropriate processes and controls over financial reporting to fulfil its duties.

Internal audit

The Group has an internal audit function led by an experienced Head of Internal Audit, reporting to the Chair of the Audit Committee. The Head of Internal Audit has access to external service providers with specialised skills, to augment internal resources as needed.

Approach

In conformity with the Financial Services Code (Guidance on effective internal audit in the financial services sector), a risk-based planning process is performed annually. This includes consideration of business objectives and a focus on those risks identified as being most likely to impact delivery of the Group's strategy.

The resulting plan is reviewed and approved by the Committee, with regular updates provided. This is kept under constant review, with any significant changes recommended to the Committee for approval.

The Group has a number of regulated entities that have specific requirements for internal audit activities. These requirements are taken into account in the planning process and, as appropriate, relevant reports on audit scope and findings are shared with the Boards of the regulated subsidiaries.

Execution

The Committee considered and approved the updated internal audit strategy and plan for fiscal years 2023 and 2024. Updates on delivery of this plan, together with related status of remedial actions, are reported at each meeting of the Committee.

During the year, in accordance with the plan, 20 risk-based reviews were completed, responded to by management and reviewed by the Committee. We pay particular attention to identified themes across the business, relative importance and relationship of findings, recommended and agreed remedial actions, and compliance with timescales for resolution and follow-up.

The Committee is satisfied that delivery of the approved internal audit strategy and plan is providing timely and appropriate assurance on the controls in place to feasibly manage the principal risks to the Group.

Effectiveness and independence

The Committee monitors the effectiveness of Internal Audit within the context of the function's charter and stakeholder expectations. The Committee will periodically request an independent part to perform an external quality assessment of Internal Audit.

In the current period, the Committee concluded that the Internal Audit function is operating effectively, at the present level of operations. We continue to monitor resourcing in view of regulatory development and business growth.

The Committee also reviewed the independence of the Internal Audit function and concluded that it remained so.