

The Audit Committee continued its key oversight role for the Board in respect of the Group's financial management and reporting.



Audit Committee Chair's overview

During the year, the Audit Committee continued its key oversight role for the Board with its specific duties as set out in its terms of reference to reassure shareholders that their interests are properly protected in respect of the Group's financial management and reporting.

The Audit Committee works to a structured programme of activities, with agenda items focused to coincide with key events in the annual financial reporting cycle. The Audit Committee reports regularly to the Board on its work.

During the year, the Audit Committee has continued to monitor the integrity of the Group's financial statements and supported the Board with its ongoing monitoring of the Group's risk management and internal control systems in line with the requirements under the Corporate Governance Code.

AUDIT COMMITTEE CONTINUED

Audit Committee Members

Ross Paterson
Chair of the Audit Committee

Richard Akers
Non-Executive Director

Ilaria del Beato
Non-Executive Director

Professor Steve Smith
Non-Executive Director

Number of Meetings

4

Attendance

100%

The Audit Committee determined the focus of the Group's internal audit activity, reviewed findings, and verified that management was appropriately implementing recommendations. The Audit Committee also looked at how to operate effectively in light of the Covid-19 pandemic, in particular, how the external audit could be delivered in the current environment whilst maintaining the expected high level of rigour. The Audit Committee also challenged the approach to assessing the Group's ability to continue as a going concern and its likely loan covenant compliance, by reviewing various scenarios for future performance.

The Audit Committee undertook a review of its effectiveness in September 2020. The review found that the Audit Committee is working effectively. The review identified areas in which we can strengthen our performance and these are reflected in the Committee's priorities for 2021.

During 2020, the Audit Committee undertook the fifth full evaluation exercise of the Deloitte audit approach to ascertain the effectiveness of the external audit function. Further to the completion of the evaluation of the external audit process, we are satisfied with both the auditor's independence and audit approach and have recommended to the Board that Deloitte be re-appointed as auditor in 2021.

We also reviewed the effectiveness of the internal auditors, PricewaterhouseCoopers ('PwC'), during 2020. We were satisfied with both the independence and effectiveness of the internal auditors. Nevertheless, in light of the major acquisition of Liberty Living in November 2019, we are reviewing the overall risk assurance arrangements, including internal audit, to ensure they are appropriate and effective for the enlarged Group.

As noted in this Corporate Governance Statement, the Board delegates certain of its duties, responsibilities and powers to the Audit Committee, so that these can receive suitably focused attention. However, the Audit Committee acts on behalf of the full Board, and the matters reviewed and managed by the Audit Committee remain the responsibility of the Directors as a whole.

Role of the Audit Committee

The Audit Committee has delegated authority from the Board set out in its written terms of reference. The terms of reference for the Audit Committee take into account the requirements of the Code and are available for inspection at the registered office, at the Annual General Meeting and on the Group website at <http://www.unite-group.co.uk/about-us/corporate-governance>.

The key objectives of the Audit Committee are:

- To provide effective governance and control over the integrity of the Group's financial reporting and review significant financial reporting judgements
- To support the Board with its ongoing monitoring of the effectiveness of the Group's system of internal controls and risk management systems
- To monitor the effectiveness of the Group's internal audit function and review its material findings
- To oversee the relationship with the external auditor, including making recommendations to the Board in relation to the appointment of the external auditor and monitoring the external auditor's objectivity and independence.

Composition of the Audit Committee

The members of the Audit Committee are set out on page 92 of this Corporate Governance Statement. The Audit Committee members are all independent Non-Executives and have been selected with the aim of providing the wide range of financial and commercial expertise necessary to fulfil the Audit Committee's duties. The Board considers that as a chartered accountant and serving Finance Director of a UK-listed company, I have recent and relevant financial experience.

Audit Committee meetings

The Audit Committee met four times during the year and attendance at those meetings is shown on page 99 of this Corporate Governance Statement. Meetings are scheduled to coincide with key dates in the financial reporting cycle and a forward agenda is agreed by the Committee and reviewed on an ongoing basis.

Meetings are attended, by invitation, by the Chief Financial Officer, the Deputy Chief Financial Officer and the Group Financial Controller.

I also invite our external auditor, Deloitte, to each meeting. The Audit Committee regularly meets separately with Deloitte without others being present. As appropriate, I also invite our internal auditor, PwC, to attend the meetings. Deloitte and PwC meet independently of management to ensure alignment, to update on respective findings and consider the impact on the relative approaches of their work.

Main activities of the Audit Committee during the year

Meetings of the Audit Committee generally take place just prior to a Group Board meeting and I report to the Board, as part of a separate agenda item, on the activity of the Audit Committee and matters of particular relevance to the Board in the conduct of its work. At its four meetings during the year, the Audit Committee focused on the following activities.

The Audit Committee reviewed the half-year and annual financial statements and the significant financial reporting judgements. As part of this review, the Audit Committee supported the Board by reviewing the financial viability and the basis for preparing the accounts on a going concern basis. This included challenging forecast cash headroom and reviewing scenarios, which were determined by management, to stress test the impact of a range of performance outcomes upon the viability of the business, in particular with regard to loan covenants. The Audit Committee also reviewed and challenged the external auditor's report on these financial statements.

As discussed above, the effectiveness of the external audit function was considered during 2020. During the evaluation process the Audit Committee considered: the independence and objectivity of the external auditor; the make-up and quality of the audit team; the proposed audit approach and the scope of the audit; the execution of the audit and the quality of the audit report to the shareholders; as well as ultimately the fee structure.

The Audit Committee discussed reports from PwC as the Group's internal auditor on their audit and assessment of the control environment. The Committee reviewed and proposed areas of focus for the internal audit programme of review including the approach to ensure that the internal audit activity continues to be aligned to the principal Group risks.

Financial reporting

The primary focus of the Audit Committee, in relation to financial reporting in respect of the year ended 31 December 2020 was to review with both management and the external auditor the appropriateness of the half-year and annual financial statements concentrating on:

- The quality and acceptability of accounting policies and practices
- The integration of Liberty Living on to Unite systems, processes and controls
- The clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements
- The clarity and appropriateness of the disclosures in respect of the impact of Covid-19
- Material areas in which significant judgements have been applied or where there has been discussion with the external auditor
- Whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy

The Audit Committee's assessment of the Annual Report to ensure that it is fair, balanced and understandable took into account the following considerations:

- A review of what fair, balanced and understandable means for Unite
- The high level of input from the Chief Executive Officer and Chief Financial Officer with early opportunities for the Board to review and comment on the Annual Report
- Ensuring consistency in the reporting of the Group's performance and management information (as described on pages 40 and 41), risk reviews (as described on pages 64 to 80), business model and strategy (as described on pages 32 to 35)

AUDIT COMMITTEE CONTINUED

- A cross-check between Board Minutes and the Annual Report is undertaken to ensure that reporting is balanced
- Whether information is presented in a clear and concise manner, illustrated by appropriate KPIs to facilitate shareholders' access to relevant information

To aid our review, the Audit Committee considers reports from the Group Financial Controller and reports from the external auditor on the outcomes of their half-year review and annual audit. As an Audit Committee, we support Deloitte in displaying the necessary professional scepticism its role requires.

Significant issues considered by the Audit Committee

After discussion with both management and the external auditor, the Audit Committee determined that the key risk of misstatement of the Group's 2020 financial statements related to:

- Property valuations
- Joint venture accounting
- Going concern

Property valuations

The Group's principal assets are investment properties and investment properties under development that are either owned on balance sheet or in USAF or LSAV. The investment properties are carried at fair value based on an appraisal by the Group's external valuers who carry out the valuations in accordance with the RICS Red Book valuation guide, taking into account transactional evidence during the year. The valuation of property assets involves significant judgement and changes in the core assumptions could have a significant impact on the carrying value of these assets. The Audit Committee identified that the uncertainty caused by the Covid-19 pandemic could cause an increased level of judgement on property valuations as at 31 December 2020.

Management discusses the underlying performance of each asset with the external valuers and provides detailed performance data to them including rents, University lease agreements, occupancy, property costs and costs to complete (for development properties). Management receives detailed reports from the valuers and performed a detailed review of the valuations to ensure that management considers the valuations to be appropriate. The valuation report is reviewed by the Chief Financial Officer and the Group Property Director prior to sign-off.

During the year, the Audit Committee and/or the Board met with members of the Group's valuer panel and challenged them on the basis of their valuations and their core assumptions, including the yield for each property, rental growth and forecast costs.

The Audit Committee questioned the external valuers on market trends and transactional evidence that supports the valuations. The Audit Committee was satisfied that the Group's valuers were appropriately qualified and provided an independent assessment of the Group's assets. The Audit Committee was satisfied that an appropriate valuation process had taken place, the core assumptions used were reasonable and hence the carrying value of investment and development properties in the financial statements was appropriate.

The external auditor explained the audit procedures to test the valuation of investment and development properties and the associated disclosures. On the basis of the audit work, the external auditor reported no inconsistencies or misstatements that were material in the context of the financial statements as a whole.

Further analysis and detail on asset valuations is set out on page 22.

Joint venture accounting

Two of Unite's significant assets are its investments in USAF and LSAV which the Group has historically accounted for as joint ventures.

The Group reports under IFRS 10-12 which provides guidance on how an investor should account for its interests in other entities, including a definition of control and guidance on how to classify and account for jointly controlled arrangements. During the year, management undertook a detailed review of its classification for both USAF and LSAV, and following that analysis concluded that both USAF and LSAV should continue to be treated as joint ventures.

The Audit Committee considered this and agreed there was no material change and accordingly it was appropriate to continue to account for USAF and LSAV as joint ventures under IFRS 11, with Unite recording its 22.0% share of the results and net assets of USAF as a joint venture using equity accounting and likewise 50% for LSAV.

Going Concern

The Audit Committee reviewed and challenged management's range of scenarios for future performance with a focus on forecast liquidity and ICR covenant performance. This review focussed on the assumptions made regarding the impact of the Covid-19 pandemic, specifically UK Universities' ability to remain open and provide a blend of online and face-to-face teaching, demand for University accommodation in the UK and travel restrictions limiting the ability of International students to travel to the UK. The Audit Committee concluded that the scenarios had been carried out on an appropriate basis and agreed to recommend to the Board that the Financial Statements be prepared on a going concern basis.

Further detail on going concern is set out on page 172.

Other issues considered by the Committee

LSAV performance fee

The Group is entitled to a LSAV performance fee if the joint venture outperforms certain benchmarks over its life ending in 2022. The Audit Committee discussed the recognition of the LSAV performance fee in 2020 and challenged the assessment of 'highly probable' used to determine the amount to recognise. This included discussion of the estimates used, being future rental income and the discount rate (yield).

Risk management

The Group's risk assessment process and the way in which significant business risks are managed is a key area of focus for the Audit Committee.

Our work here was driven primarily by performing an assessment of the approach taken by the Group's Risk Committee. The Risk Committee is responsible for the delivery of the Group's Risk Management Framework, which the Audit Committee has approved, and the Group's assessment of its principal risks and uncertainties, as set out on pages 68 to 80.

The Board also formally reviewed the Group's principal risks at two meetings during the year. Through these reviews, the Audit Committee considered the risk management procedures within the business and was satisfied that the key Group risks were being appropriately managed.

The risk assessment flags the importance of the internal control framework to manage risk and this forms a separate area of review for the Audit Committee.

Internal controls

Led by the Group's risk assessment process, we reviewed the process by which the Group evaluated its control environment. Management is responsible for establishing and maintaining adequate internal controls. Internal controls are designed to provide reasonable assurance regarding (among other things) the reliability of financial reporting and the preparation of the financial statements for external reporting purposes. A comprehensive strategic planning, budgeting and forecasting process is in place. Monthly financial information and performance insight is reported to the Board.

The Audit Committee's work to review the effectiveness of the internal controls was driven by the Deputy Chief Financial Officer's report on internal controls, supported by the work of the internal auditor and their reports to the Audit Committee. The feedback from the Group's internal auditor on specific areas of control is tested on a periodic basis and our external auditor is requested to provide specific feedback and assessment of the Group's financial controls and highlight any areas of weakness. No significant weaknesses were identified through the course of the Audit Committee's reviews, despite the impact of Covid-19.

Internal audit

The Group engages PwC to perform internal audit activity, with this internal audit function reporting directly to the Audit Committee.

Due to the Covid-19 pandemic, the 2020 internal audit plan was adapted to a more flexible approach allowing us to focus on key issues. This approach resulted in PwC completing internal audit work on cyber security in 2020. Overall, PwC concluded that there were no significant issues and controls were well designed, but noted there were some areas of improvement to be made to maximise controls and operational efficiency, which management is in the process of implementing.

External audit

The effectiveness of the external audit process is facilitated by appropriate audit risk identification at the start of the audit cycle which we receive from Deloitte in a detailed audit plan, identifying their assessment of these key risks.

For the 2020 financial year, the significant risks identified were in relation to valuation of properties, classification of joint ventures, going concern, revenue recognition and management override of controls. These focus areas were discussed at the Audit Committee and it was agreed that they should be the principal areas of focus as they represent the areas with the greatest level of judgement and materially impact the overall performance of the Group. These risks are tracked through the year and we challenged the work done by the auditor to test management's assumptions and estimates around these areas.

We assess the effectiveness of the audit process in addressing these matters through the reporting we receive from Deloitte at both the half-year and year-end and also reports from management on how these risks are being addressed.

AUDIT COMMITTEE CONTINUED

For the 2020 financial year, the Audit Committee was satisfied that there had been appropriate focus and challenge on the primary areas of audit risk and assessed the quality of the audit process to be good. We hold private meetings with the external auditor at each Audit Committee meeting to provide additional opportunity for open dialogue and feedback from the Audit Committee and the auditor without management being present. Matters typically discussed include:

- The auditor's assessment of business and financial statement risks and management activity thereof
- The transparency and openness of interactions with management, confirmation that there has been no restriction in scope placed on them by management and the independence of their audit
- How they have exercised professional scepticism

I also meet with the external lead audit partner outside the formal Audit Committee process.

Independence and external audit tender

The Audit Committee considers the re-appointment of the external auditor, including the rotation of the audit partner which is required every five years, each year and also assesses their independence on an ongoing basis. 2020 is the sixth year during which Deloitte has been the Group's external auditor. In accordance with the requirements to rotate the audit partner at least every five years, 2020 saw Stephen Craig take over responsibility for the audit from Judith Tacon.

The Audit Committee reviewed Deloitte's audit work and determined that appropriate plans are in place to carry out an effective and high quality audit. Deloitte confirmed to the Audit Committee that it maintained appropriate internal safeguards to ensure its independence and objectivity. As part of the Audit Committee's assessment of the ongoing independence of the auditor, the Audit Committee receives details of any relationships between the Group and Deloitte that may have a bearing on their independence and receives confirmation that they are independent of the Group.

As discussed above, an assessment of Deloitte's effectiveness, its processes, audit quality and performance was undertaken in May 2020 following completion of the 2019 audit.

The Committee confirms compliance 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) Order 2014.

Non-audit services

To further safeguard the objectivity and independence of the external auditor from becoming compromised, the Committee has a formal policy governing the engagement of the external auditor to provide non-audit services. No material changes have been made to this policy during the year. This precludes Deloitte from providing certain services, such as valuation work or the provision of accounting services.

For certain specific permitted services (such as reporting accountant activities and compliance work), the Audit Committee has pre-approved that Deloitte can be engaged by management, subject to the policies set out above, and subject to specified fee limits for individual engagements and fee limits for each type of specific service. For all other services, or those permitted services that exceed the specified fee limits, I as Chairman, or in my absence, another member, can pre-approve permitted services.

During the year, Deloitte was appointed to undertake non-audit services. Fees for non-audit work performed by Deloitte for the year ended 31 December 2020 were £0.1 million (2019: £2.0 million). The non-audit fees related to the work undertaken by Deloitte LLP in its role as external auditor to the Group for the review of the half year report. Further disclosure of the non-audit fees incurred during the year ended 31 December 2020 can be found in note 2.6 to the consolidated financial statements on page 187. Accordingly, the Audit Committee was satisfied that both the work performed by Deloitte LLP, and the level of non-audit fees paid to it, were appropriate and did not raise any concerns in terms of Deloitte LLP's independence as auditor to the Group.

The Audit Committee approved the fees for audit services for 2020 after a review of the level and nature of work to be performed, including the impact of the acquisition of Liberty Living, additional audit procedures required as a result of Covid-19 and changes in the regulatory environment, and after being satisfied by Deloitte that the fees were appropriate for the scope of the work required.

Audit Committee evaluation

The Audit Committee's activities formed part of the evaluation of Board effectiveness performed in the year. Details of this process can be found under 'Performance evaluation'.

Ross Paterson

Chair – Audit Committee

16 March 2021