Audit & Risk Committee report

"The Audit & Risk Committee is responsible for maintaining the integrity of the Group's financial reporting in addition to monitoring and reviewing the adequacy and effectiveness of the Group's internal financial controls and risk management systems."

Geoffrey Gavey
Chair of the Audit & Risk Committee

Dear Shareholders,

I am pleased to present the Audit & Risk Committee report for the year ended 31 March 2024. My report summarises the areas of focus and work conducted by the Committee over the course of the last year.

The Committee's role is to assist the Board with the discharge of its responsibilities in relation to external audits and internal controls and risk management, including: reviewing the Group's annual financial statements and risk appetite, considering the scope of the annual audit and the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the Group's internal control systems (including risk management processes).

Key areas of focus

One of the primary responsibilities of the Committee is to consider and report any significant issues that arise in relation to the audit of the financial statements. Further details on the areas of focus are provided later in my report, but I can confirm there were no significant issues to report to Shareholders in respect of the audit of the financial statements for the year ended 31 March 2024.

The Committee has focused on the continuing development of the risk management function within the business. The Group's Head of Risk continues to evolve our systems and controls to support the growth and stability of the business, with a particular focus this year on our sustainability risk management activities. Regional risk and compliance frameworks continue to support our ambitions in Europe alongside the growth of our AIFM branch network. Our risk platform continues to support our business and functions and ensures a dynamic exchange of information on risks across our regions.

Towards the end of the year, the Board decided to extend the remit of the Committee to include Governance and Sustainability in recognition of their importance to the Group's activities. During FY25, the Group's Sustainability committee will be restructured and a Group-level Governance, Risk & Compliance Committee will be established to support the Audit & Risk Committee with our responsibilities in these areas.

Over the next 12 months the Committee will review the double materiality analysis work performed by the Group Sustainability committee as the Group seeks to improve and expand its ESG analytical and reporting capabilities. Foresight has undertaken this work as a matter of best practice ahead of formal compliance requirements being implemented over the coming years. The Committee will review the framework policies and processes for identifying and assessing business risks and opportunities as they relate to sustainability and climate-related risks and the management of their impact on the Group.

Audit & Risk Committee report continued

What the Committee reviewed during FY24

Financial and narrative reporting	Internal control, risk management and compliance	External/internal audit	Governance	Sustainability
• Annual and Half-year Reports to ensure they were fair, balanced and understandable, including APMs • Key accounting judgements and estimates • Communications with the FRC • Going concern and viability • ESG disclosure enhancements	• Reports from the Group's Risk Committee ("RC") • Review of the viability statement and the supporting stress test scenarios • Update on cyber security and penetration tests • Regular reviews of compliance with regulatory rules and compliance monitoring findings	• Audit reports from the External Auditor • Confirmation of the External Auditor's independence • Policy and approval for non-audit fees • FY24 audit plan, including significant audit risks • External Auditor performance and effectiveness • Internal audit strategic plan over the next three years	• Reports from the Group Governance team • Annual review of the Company's compliance with the Corporate Governance Code and reporting to Shareholders • Consideration of upcoming changes to the Code which apply to financial years beginning on or after 1 January 2025	• Introduction to double materiality analysis • UK SDR and anti-greenwashing • Data management and reporting • Group Sustainability Report

Interaction with the Financial Reporting Council ("FRC")

The Company received a letter from the FRC on 1 March 2024 requesting further information following their review of our Annual Report and Accounts for the year ended 31 March 2023 in accordance with Part 2 of the FRC Corporate Reporting Review Operating Procedures.

The areas they requested further information on were in relation to:

(i) Fair value of intangible assets – customer contracts

(ii) Earnings per share

In addition, they noted some observations on our TCFD disclosures and APMs, which we have reviewed and considered when completing this year's Annual Report and Accounts.

Specifically in relation to the intangible assets, they asked us to explain why there had been a difference in the value of customer contract intangible assets recognised on the acquisition of Infrastructure Capital Holdings Pty Ltd between the Half-year Report for the six months ended 30 September 2022 and the Annual Report for the year ended 31 March 2023. We explained that the figures in the Half-year Report were provisional at the time (as permitted under IFRS 3) and that the figures were finalised in the Annual Report for the year ended 31 March 2023.

This was explained in the Half-year Report for the six months ended 30 September 2023, but we acknowledge that further disclosure should have been made to facilitate an understanding of the adjustments to the provisional amounts in the Annual Report for the year ended 31 March 2023.

Regarding earnings per share, the FRC asked for further information about the calculation of the weighted average number of shares in issue during the period. We provided an explanation of the calculation and agreed to update our accounting policy wording.

Post period end, we received a follow-up letter from the FRC on 7 May 2024 confirming they were satisfied with our responses and that they had closed their enquiry. As is common with all FRC enquiries, we have consented to the FRC publishing the findings of their review on their website in due course. The FRC have requested us to make clear the limitations of their review and that it provides no assurance that the Annual Report and Accounts are correct in all material respects – the FRC's role is not to verify the information provided to it, but to consider compliance with reporting requirements.

Audit & Risk Committee report continued

Composition

The Committee was formed on 3 February 2021 as part of the preparation for the Company's Admission to the Main Market of the London Stock Exchange. Its members are me as Chair, alongside fellow independent NEDs Alison Hutchinson and Mike Liston.

The UK Corporate Governance Code recommends that all members of the Audit & Risk Committee be Independent Non-Executive Directors, that one such member has recent and relevant financial experience, and that the Committee as a whole shall have competence relevant to the sector in which the Company operates.

Whilst no member of the Audit & Risk Committee has an accounting or audit qualification, the Board considers that the Company complies with the requirements of the UK Corporate Governance Code, as I have recent and relevant financial experience, being a member of the Audit & Risk Committee at other companies. The absence of a member of the Audit & Risk Committee with an accounting and/or audit qualification is kept under periodic review by the Board.

Committee meetings

The Committee meets at least three times per year and at such other times as required. The Company's External Auditor or Chief Risk Officer ("CRO") may also request a meeting if they consider it necessary.

The Committee met on five occasions during the financial year under review and reviewed and discussed a number of topics, as outlined in the table earlier in the report.

Responsibilities

As part of the IPO in February 2021, Terms of Reference ("ToR") were defined and documented for the Committee. These were reviewed and updated during the year to reflect the current statutory requirements and best practice appropriate to a group of Foresight's size, including extending the remit of the Committee to include Governance and Sustainability.

The Group complies with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

The new ToR were adopted on 8 March 2024 and a copy can be found here.

The Committee is principally responsible for the following:

(i) Considering and reporting any significant issues that arise in relation to the audit of the financial statements
(ii) Reviewing the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems
(iii) Considering the need for an internal audit function
(iv) Reviewing the independence and effectiveness of the external audit process, including the provision of any non-audit services
(v) Reviewing the Group's position with respect to the Code and corporate governance practice
(vi) Sustainability reporting, including the support of any audit undertaken regarding such reporting

(i) Significant financial reporting areas

The key areas of risk identified and considered by the Committee in relation to the business activities and financial statements of the Group for the year ended 31 March 2024 were as follows:

Area of focus – Revenue recognition

(Management and Secretarial fees; Marketing fees; Directors' fees; Arrangement fees; and Performance fees

Comments and conclusions

Management fees

Revenue is recognised in line with the investment management or advisory agreements in place with the appropriate funds. These are typically based on the Net Asset Value ("NAV") or committed capital of Limited Partnership funds managed or advised by the Group. Where NAV is used, it is typically the last audited or publicly available NAV approved by the independent boards of the relevant companies.

Secretarial fees

Relate to services provided to funds Foresight manages (such as company secretarial, accounts preparation, administration, etc.) and are generally driven by Funds Under Management ("FUM") and calculated as a percentage of NAV or as a fixed fee depending on the terms of the individual contract agreements.

Audit & Risk Committee report continued

Responsibilities continued

(i) Significant financial reporting areas continued

Area of focus – Revenue recognition continued

Management and Secretarial fees; Marketing fees; Directors' fees; Arrangement fees; and Performance fees

Marketing fees

These are fees recognised as a percentage of initial funds raised from the tax-based retail products.

Directors' fees

Relate to services provided by Foresight staff where they are appointed as Directors on the boards of portfolio companies in which the Foresight funds invest. The fees are recognised in line with the contractual agreements between Foresight and the portfolio companies.

Arrangement fees

Earned by Foresight for its role in arranging certain deals (including capital deployments, fundraisings and refinancings), based on a percentage of the capital raised/deployed/refinanced.

Performance fees

Usually one-off in nature and earned from carried interest arrangements. Performance fees are recognised only at the point in time when the Group has certainty as to the receipt of such revenue, such that it is highly probable that a significant reversal in the amount of revenue recognised will not occur. Performance fees were recognised during the year following successful exits from the Foresight Regional Investment Fund LP ("FRIF"), Foresight Nottingham Fund ("FNF"), Foresight VCT plc and Foresight Enterprise VCT plc. The revenue was recognised once the Group had received the cash.

Following discussions with management and review of the Group's controls and procedures as part of the meetings held throughout the year, the Committee is comfortable that revenue has been properly recognised in the financial statements in line with the Group's accounting policies.

Area of focus – Accounting for business combinations under IFRS 3

Comments and conclusions

As previously reported, on 20 June 2023 the Group acquired Wellspring Finance Company and, its 100% owned subsidiary, Wellspring Management Services Limited. Management concluded that the acquisition constituted the acquisition of a business under IFRS 3 and therefore accounted for it as a business combination. The asset management contracts of Wellspring Management Services Limited were therefore required to be valued at acquisition as intangible assets – customer contracts.

There is a considerable amount of subjectivity used in valuing intangibles of this nature and, therefore, management engaged a third-party professional services firm to conduct a purchase price allocation, including the identification and valuation of these separately identified intangible assets. Provisional assessments at the half year have now been finalised.

The intangible assets for customer contracts have been valued using a discounted cash flow model, with assumptions regarding length of contract, appropriate costs and appropriate discount rates applied. Contributory asset charges have also been applied to determine the fair value of the management contract. Following discussions with management and review of the third-party report, the Committee is satisfied with the valuations conducted and that there were no indicators of impairment of these intangible assets.

Audit & Risk Committee report continued

Responsibilities continued

(i) Significant financial reporting areas continued

Area of focus – Impairment of goodwill and intangibles (customer contracts)

Comments and conclusions

In addition to intangible assets – customer contracts, goodwill arising on acquisitions is capitalised and carried at cost less provision for impairment. Intangible assets – customer contracts are held at the amount initially recognised less accumulated amortisation. An assessment is made at each year end for each intangible as to whether there is any indication that the assets may be impaired.

Management have now concluded their allocation of goodwill arising from the Infrastructure Capital Group and Downing acquisitions to cash-generating units ("CGUs") and the Committee was satisfied that this allocation was appropriate. Management have conducted valuations of these CGUs which are greater than the carrying value of goodwill and no impairment has arisen.

Management have reviewed each intangible asset – customer contract for indicators of impairment and indicators were identified for the two contracts acquired from Downing, Thames Ventures VCT 1 plc and Thames Ventures VCT 2 plc. This is due to the reduction in AUM seen in these VCTs since acquisition. Management have reassessed the valuation of these assets using appropriate assumptions. The Committee considered management's assessments and are satisfied that the correct accounting treatment has been followed. Indicators were also identified for the three contracts acquired from Infrastructure Capital Group, Energy Infrastructure Trust, Diversified Infrastructure Trust and Australian Renewables Infrastructure Fund. This is due to the reassessment of achieving the management fee revenue targets in future periods for the remuneration for post combination services. Management have reassessed the valuation of these assets, which is greater than the carrying values and therefore no impairment has arisen.

Area of focus – IFRS 2 – Performance Share Plan

Comments and conclusions

The Group continues to operate an IFRS 2 Performance Share Plan ("PSP") scheme and there was a further grant of options in August 2023. The operation of this plan involves management judgement and complex accounting, in particular around the grant and vesting start date and the fair value of the options including appropriate retention rates.

Management continued its engagement with a third-party firm specialising in IFRS 2 valuations to assist with the valuation in this area. Discussions were held between the firm and management who challenged the assumptions used and assessed their appropriateness.

Following discussions with management and review of the output from the third-party firm, the Committee has concluded that the financial statements have been accurately presented in accordance with IFRS 2.

Area of focus – Transfer pricing

Comments and conclusions

Due to the Group operating in a number of jurisdictions across the globe, there are a number of inter-company pricing policies applicable to both the investment management and asset management value chains.

As reported previously, a third-party professional services firm was engaged in the prior year to review and develop the Group's transfer pricing policies. There were no changes to the policies during FY24 and the Committee remains satisfied that these were still appropriate. Management will continue to review these policies regularly in light of any changes in tax legislation.

Audit & Risk Committee report continued

Responsibilities continued

(i) Significant financial reporting areas continued

Area of focus – Forward contracts

Comments and conclusions

In order to mitigate the risk associated with the increase in Group cash flows arising in a foreign currency following the acquisition of ICG, the Group entered into a number of forward foreign currency contracts in September 2022. These forward foreign currency contracts are considered to be derivatives and are accounted for as financial instruments within the scope of IFRS 9 but are not designated as hedging instruments and therefore not subject to hedge accounting.

Following discussions with management, review of the Group's treasury policy and confirmation of the existence of the derivatives from the Group's foreign exchange broker, the Committee is comfortable that the contracts have been accounted for correctly in the Annual Report and Accounts.

(ii) Risk management and internal controls

Each business and functional area across the Group is responsible for identifying, monitoring, measuring and managing risks as well as setting controls and assessing their efficacy. Oversight of risks and risk management activity remains with the Group's Risk Committee, with escalation to the Executive Committee and Audit & Risk Committee as required.

The Board of Directors is accountable for the risk management activities of the Group and is responsible for setting the tone for the Group's risk culture. The Board therefore has the ultimate responsibility for the effective management of risk, including determining the Group's risk appetite, identifying key strategic and emerging risks, and reviewing Foresight's risk management and internal control framework. For information on the Group's principal and material risks please refer to pages 55 to 63 of the Strategic Report.

In addition to the Group Risk Committee, the Audit & Risk Committee continues to rely on a number of different sources, including the production of the annual ISAE 3402 report which covers controls around the valuation of the Group's funds, as well as third parties providing additional support in specialist areas such as tax, risk, compliance and governance.

In my role as Chair of the Audit & Risk Committee, I attended a number of management meetings during the year to observe for myself the discussions and challenge provided by senior management. These meetings covered Risk, Compliance and Valuations in addition to meetings of the three core business divisions.

The Committee provided its confirmation to the Board that it has reviewed the effectiveness of the systems of internal control, including financial, operational and compliance controls, and risk management for the reporting period, as required under the provisions of the Code.

(iii) Internal audit

Taking account of the nature, scale and complexity of the Group's business, Foresight does not currently have a dedicated internal audit function. However, the Committee keeps this under constant review and is expecting to initiate an internal audit function in FY25 reflecting the continued growth of the business.

Our risk governance function continues to be developed by the Head of Risk and the timeline for an internal audit function is regularly raised at the Risk Committees. During the year, an internal audit function implementation plan was presented to the Board by the Head of Risk. It was agreed that the Group would prepare the first and second lines of defence for the arrival of an internal audit function, starting with areas of higher risk.

Audit & Risk Committee report continued

Responsibilities continued

(iii) Internal audit continued

Foresight prepares a controls report in accordance with International Standards on Assurance Engagements (ISAE 3402) which is also reviewed by BDO. This report describes the controls in place for processing investment transactions across the Group including the procedures in place to deal with conflicts of interest. The most recent report was produced and audited for the 12-month period to 31 March 2023 with the audit for the 12-month period to 31 March 2024 ongoing. In addition, to ensure CASS rules are followed, an independent review is performed by the internal compliance function as part of its annual compliance monitoring plan.

(iv) External audit, including non-audit services

The Committee is responsible for ensuring that the External Auditor provides an effective audit of Foresight's financial statements, including overseeing the relationship and evaluating the effectiveness of the service provided and its ongoing independence.

BDO are engaged as the External Auditor for the Group and have audited the principal trading business within the Group (Foresight Group LLP) since the year ended 31 March 2019. As reported previously, having completed five years on the Foresight audit, Peter Smith rotated off the engagement following the conclusion of last year's audit and was replaced by Elizabeth Hooper.

In assessing the quality and effectiveness of the external audit, the Committee reviewed the audit team's demonstrated competence, experience, diligence, objectivity, professional scepticism, current knowledge and its relationship with the Executive Directors and senior management. Since Elizabeth joined the audit, I have held several meetings with her and her team (both with and without Foresight present) to review the audit scope and audit findings, provide challenge and assess the depth of review provided by BDO over the significant judgements and estimates made by management.

As a result of these meetings, I was satisfied with BDO's processes, capability of their staff and observations about management.

BDO confirmed its independence and objectivity from Foresight during the reporting period and both the Committee and the Board are satisfied that BDO has adequate policies and safeguards in place to ensure its objectivity and independence are maintained.

When assessing the independence of BDO, the Committee considered, amongst other things, the value of non-audit services provided by BDO, and the relationship with them as a whole. The provision of non-audit services is considered by the Committee in the policy they have adopted on the independence and objectivity of external auditors. This policy is aligned to the recommendations of the Financial Reporting Council's ("FRC's") Guidance on Audit Committees (2016) and the requirements of the FRC's Revised Ethical Standard (2019) (the "Ethical Standard"). An external audit firm will only be appointed to perform a non-audit service when doing so would be consistent with both the requirements and overarching principles of the Ethical Standard, and when its skills and experience make it the most suitable supplier.

Details of the fees paid to BDO for audit and non-audit services are shown in note 6 of these financial statements. The non-audit services provided by BDO for the year ended 31 March 2024 related to an assurance report on the internal control environment of the Group in accordance with ISAE 3402; agreed-upon procedures in conjunction with the publication of the Group's Half-year Report; the annual CASS audits and assistance with the FRC Corporate Reporting Review letter.

The Group has a number of overseas subsidiaries, some of which require a local statutory audit. BDO have been used as component auditors in Luxembourg and Guernsey for a number of years but following a review of component auditors after the ICG acquisition, the Committee agreed to use BDO instead of PwC for the local audits in Australia for the year ended 31 March 2024.

The Committee is responsible for recommending to the Board the appointment, reappointment and removal of the External Auditor. The Committee has recommended to the Board that, subject to Shareholder approval at the 2024 AGM, BDO be reappointed as External Auditor of the Group for the forthcoming year.

Audit & Risk Committee report continued

Responsibilities continued

(v) Governance

With effect from 8 March 2024, the Board approved an amendment to the Committee's Terms of Reference to include Governance. This was specifically to assign responsibility to the Committee for overseeing the Company's position with respect to the Code and corporate practice, including leading an annual review of the Company's compliance with the Code and its governance procedures and reporting to Shareholders. As has been the case since the IPO in February 2021, the Company Secretary has tracked the Company's compliance with the Code and its three areas of non-compliance are noted and explained on page 68. All other governance arrangements are reviewed periodically by the Company Secretary; however, with effect from FY25, this review will take a more formalised approach for the purpose of presenting reports on progress and findings to the Committee during the course of the year.

(vi) Sustainability

As noted earlier in the report, the Committee has now also been assigned responsibility for Sustainability. During FY24, the Committee approved the delivery of a double materiality analysis via a third-party consultancy specialising in sustainability regulation and reporting. The outputs of the project led to a gap analysis and action plan that will shape Foresight's sustainability strategy for the next three years.

Additional work conducted by the Committee included implementation of a UK Sustainability Disclosure Requirements ("SDR") working group to ensure compliance with these new rules.

Further details on these initiatives can be found in our separate Sustainability Report, located here https://www.foresight.group/sustainability-report-fy24.

On behalf of the Audit & Risk Committee

Geoffrey Gavey

Chair of the Audit & Risk Committee

26 June 2024

Members of the Foresight team