

# Report of the Audit and Risk Management Committee



**Andrew Wilkinson, Chair of the Committee**

*"The committee performs a vital role with regards to financial reporting, monitoring and reviewing internal controls and assessing the principal risks facing the Company."*

## Dear Shareholder,

I am pleased to present the Audit and Risk Management Committee report for the year ended 31 March 2023, which has been approved by both the Audit and Risk Management Committee and the Board.

We have continued to support the Board by ensuring the integrity of the Company's financial reporting, providing independent scrutiny and challenging the judgments made by the Investment Adviser. We have focussed on valuations of catalogues, individual catalogue and portfolio performance, economic outlook, key performance indicators, environmental and social reporting and ongoing monitoring of the Company's risk matrix.

These topics will remain key areas for the year ahead and we will continue to support the Board.

## Purpose and Aim

Our terms of reference, which are reviewed annually, are set out on the Company's website (<https://www.hipgnosissongs.com/governance/>) and include all matters indicated by Disclosure and Transparency Rule 7.1, the AIC Code and the UK Code. The Company complies with the provisions of the Competition and Markets Authority's (CMA) Order 2014.

Our primary functions are:

- reviewing and monitoring the integrity of the Financial Statements of the Group and any formal announcements relating to the Group's financial

performance, reviewing significant financial reporting judgments contained in them;

- reporting to the Board on the appropriateness of the Group's accounting policies and practices including critical judgment areas;
- reviewing the valuations of the Group's investments as prepared and presented in report format by the Portfolio Independent Valuer, and making a recommendation to the Board on value of the Group's investments;
- meeting regularly with the external auditor to review their proposed audit plan and the subsequent audit report and assessing the effectiveness of the audit process and the levels of fees paid in respect of both audit and non-audit work;
- making recommendations to the Board in relation to the appointment, re-appointment or removal of the external auditor and approving their remuneration and the terms of their engagement;
- monitoring and reviewing annually the auditor's independence, objectivity, expertise, resources, qualification and non-audit work;
- considering annually whether there is a need for the Group to have its own internal audit function;
- monitoring the internal financial control and risk management systems on which the Group is reliant;
- reviewing and considering the UK Code, the AIC Code, the FRC Guidance on audit committees; and
- reviewing the risks facing the Group and monitoring the risk matrix.

We formally report our findings to the Board, identifying any matters on which we consider that action or improvement is needed, and make recommendations on the steps to be taken.

## Membership and Meetings

Composition of the Audit and Risk Management Committee:

**Mr Andrew Wilkinson** (Chair of the Committee)  
**Mr Paul Burger**  
**Ms Sylvia Coleman**  
**Mr Simon Holden**  
**Ms Vania Schlogel** (resigned 30 April 2023)  
**Mr Andrew Sutch**

Due to the current size of the Board it is deemed appropriate and efficient that each Director is a member of the committee. This ensures that individual directors are not working in silos and that each Director has knowledge of the deliberations of the committee.

The Chair of the Board is currently a member of the Audit and Risk Management Committee and was independent on appointment. The varied backgrounds of the committee's members and their collective skills, experience and knowledge of the Company allow them to fulfil the committee's remit. As a chartered accountant with a long professional history in the music industry, I have the necessary recent and relevant experience to chair the Audit and Risk Management Committee. The other members have significant business experience, both within the music industry and in the asset management industry. Detailed information on the experience, qualifications and skillsets of all committee members can be found on pages 85-87. Our performance is evaluated as part of the overall evaluation of the Board and the Board Committees as further disclosed on page 84.

I am available on request to meet investors in relation to the Company's financial reporting and internal controls.

### Meeting Schedule

We have an annual work plan, developed from our terms of reference, with standing items that we consider at each meeting, in addition to any specific matters arising and topical items on which we have chosen to focus.

During the year we met formally on five occasions, and attendance at those meetings is shown on page 82 of the Corporate Governance Report. Third parties, including the Portfolio Independent Valuer, have attended meetings as and when deemed appropriate. In addition to the formally convened meetings during the year, I have had regular contact and meetings with the Investment Adviser, the Administrator and the external auditor. We also provide a formal update on our work to the Board at each scheduled quarterly board meeting.

During the year we:

- reviewed our terms of reference for approval by the Board;
- conducted a detailed review of the Interim Report and recommended it for approval by the Board;
- reviewed the Group's updated risk matrix and associated controls;
- reviewed the Company's working capital model prepared by the Investment Adviser focusing on impact of fluctuations in foreign exchange and rising interest rates;
- reviewed the performance of catalogues tracked to the Investment Adviser's initial business case for each acquisition by income type, catalogue and as a portfolio overall with the Investment Adviser;
- reviewed and assessed the assumptions used and resulting valuation of the portfolio prepared by the Portfolio Independent Valuer, which encompassed direct discussions with the Portfolio Independent Valuer, the Investment Adviser and the external auditor;
- reviewed the Company's corporate governance framework, including environmental and social reporting;
- reviewed and approved the audit plan in relation to the audit of the Group's Annual Report;
- reviewed and approved the fee for the external audit as well as non-audit services and associated fees;
- assessed the independence of the external auditor;
- assessed the effectiveness of the external audit process as described below; and
- reviewed the Group's system of internal controls and risk management.

### Financial Reporting

Our primary role in relation to financial reporting is to review with the Administrator, the Investment Adviser and the external auditor the appropriateness of Interim Reports and Annual Reports, concentrating on, amongst other matters:

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial, environmental, social and governance reporting requirements;
- material areas in which significant judgments have been applied or there has been discussion with external consultants;
- the ongoing assessment of the Company as a going concern;

- the principal risks and period of assessment for the longer term viability of the Company;
- whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group's performance, business model and strategy; and
- any correspondence from regulators in relation to the Group's financial reporting.

To aid our review, we consider reports from the Investment Adviser and the external auditor.

### Areas of significance considered by us during the year:

#### Valuations of catalogues

We discussed the impact of macroeconomic factors including rising interest rates and high inflation on the discount rate applied and the valuation of the portfolio with the Portfolio Independent Valuer and other industry experts. The Board engaged the Portfolio Independent Valuer, Citrin Cooperman, to value the Catalogues as at 31 March 2023. Each income type from each catalogue was analysed and forecasts prepared in order to derive the fair value of the catalogues by adopting a discounted cash flow valuation methodology using a discount rate of 8.5%. Income was analysed and forecast at the level of each individual catalogue and by income type.

The Portfolio Independent Valuer has also taken into consideration macro factors including the growth of streaming revenue, the global growth of the recorded music industry and the impact of the ongoing Covid-19 recovery in their analysis. The Board received a report from Citrin Cooperman and held two meetings with them to discuss the fundamental changes emerging over the year influencing the value of catalogues, the discount rate methodology and further factors impacting the movements in valuations before approving the valuation. Further detail is disclosed within Note 6 on pages 139-140.

At the time of the Interim Report the Board also took into consideration a report by Kroll Advisory Limited, who considered and advised on the reasonableness of certain assumptions used by Citrin Cooperman in their valuation of the Group's Catalogues. Following year end, a further analysis was undertaken by Kroll as disclosed in the Chair's Statement on pages 11-15.

#### Internal Control and Risk Management

The Board has overall responsibility for risk management. The risk management process is designed to manage rather than eliminate the risk of failure to achieve the Company's business objectives and can only provide reasonable, not absolute assurance against material misstatement or loss.

On behalf of the Board, we reviewed the effectiveness of the Group's risk management processes and the way in which significant business risks are managed. Our work is driven primarily by the Company's assessment of its principal risks and uncertainties as set out in the Strategic Report on pages 62-66. We have established a set of ongoing processes designed to meet the particular needs of the Company in managing the risks to which it is exposed. The process is one whereby the Investment Adviser identifies the principal risks to which the Company is exposed and discusses them with me prior to recording them on a risk matrix together with the controls employed to mitigate these risks. We have ongoing discussions with the Investment Adviser and have a process in place to identify emerging risks and to determine whether any actions are required and apply a residual risk rating to each risk. We, as a committee, are responsible for reviewing the risk matrix and associated controls before recommending to the Board for consideration and approval, and we challenge the Investment Adviser's assumptions to ensure a robust internal risk management process.

During the year, we discussed and reviewed the internal controls frameworks in place at the Investment Adviser, the Administrator, and Hipgnosis Songs Group. Following the transition of responsibility for the maintenance of the Group's accounting books and records and financial reporting from the Administrator to the Investment Adviser we received a presentation and report from Deloitte in relation to their review of the procedures, processes and internal controls the Investment Adviser has in place for the Group's financial reporting. Furthermore the Administrator holds the International Standard on Assurance Engagements (ISAE) 3402 Type 2 certification. This entails an independent rigorous examination and testing of their controls and processes. The Audit and Risk Management Committee concluded that these frameworks were appropriate for the identification, assessment, management and monitoring of financial, regulatory and other risks, with particular regard to the protection of the interests of the Company's Shareholders.

**FRC**

During the year, the Company's Interim Report for the six months ending 30 September 2022 was reviewed by the FRC as part of its routine monitoring of corporate reporting. On 13 February 2023, the FRC's Corporate Reporting Review team requested further information in relation to the Company's accounting for accrued income, Alternative Performance Measures, Impairment of Catalogues of Songs and accrued dividends.

With assistance from the Investment Adviser we collaboratively engaged with the FRC, and their enquiries reached a satisfactory conclusion. The FRC suggested some disclosure enhancements within the Interim Report for the six months ending 30 September 2022 which have been included in this Annual Report. The Directors are pleased to have agreed to adopt these changes in line with their own objective of continuous improvement.

The committee reviewed the disclosures and amendments proposed by management and concluded that they are appropriate.

When reviewing the Interim Report for the six months ending 30 September 2022, the FRC has made clear the limitations of its review as follows:

- The review was based on the interim report and accounts and did not benefit from detailed knowledge of the business or an understanding of the underlying transactions entered into and therefore provides no assurance that the Interim Report is correct in all material respects.
- It was, however, conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework.

**Primary Areas of Judgment and Estimation**

The Board, alongside the Investment Adviser, is involved in various estimates and judgments, as noted below:

- Forecasting income for each Catalogue that is acquired in order to appraise investment opportunities. These judgments are based on detailed reports and management accounts prepared by the Investment Adviser showing historical earnings as well as industry projections, published by verified third parties. For the income that is driven by 'active management', judgments are made based on a Song-by-Song assessment by the Investment Adviser;
- Accruals, as estimates, are booked in the financial period based on historical analysis from royalty statements and a conservative calculation. These calculations are reviewed by the Board with the Investment Adviser and the external auditors;
- The estimated amortisation booked per annum is based on 20 years which is the Company's judgment of the useful life of its assets; and
- Indicators of impairment are considered on a timely basis and a judgment would be made as to whether a Catalogue should be impaired in line with the methodology considered appropriate by the Investment Adviser and the Board.

**Fair, Balanced and Understandable**

At the request of the Board, we have considered whether in our opinion, the 31 March 2023 Annual Report and Financial Statements are fair, balanced and understandable and whether they provide the information necessary for Shareholders to address the Group's position and performance, business and strategy.

We were provided with a full draft of the report and reviewed it for consistency and conducted sample checks and balances and provided feedback highlighting the elements that would benefit from further clarity. The draft report was amended ahead of providing final approval to ensure that the report reflected the key strategic messages without diluting the overall transparency in the disclosures. Following our review, we are of the opinion that the 2023 Annual Report and Financial Statements are representative of the year and present a fair, balanced and understandable overview, providing the necessary information for the Shareholders to assess the position, performance, business model and strategy.

## Audit

### Internal Audit

We have reviewed the need for an internal audit function and have decided that the systems, processes and procedures employed by the Company, Investment Adviser and Administrator, including their own internal controls and procedures, provide sufficient assurance that an appropriate level of risk management and internal control is maintained. We have therefore concluded that an internal audit function specific to the Company is unnecessary.

### External Audit

The Audit and Risk Management Committee is the formal forum through which the external auditor reports to the Board. The external auditor is invited to attend our meetings as we deem appropriate. The external auditor also has the opportunity to meet with us without representatives of the Investment Adviser or the Administrator being present at least once per year.

The external audit contract is required to be put to tender at least every 10 years. We shall give advance notice of any retendering plans within the Annual Report. We have considered the re-appointment of the External Auditor and decided not to put the provision of the external audit out to tender at this time.

PricewaterhouseCoopers CI LLP were appointed on 14 January 2019 as the Company's external auditor with Mr Roland Mills as the lead audit partner who can serve as such until the conclusion of the year ended 31 March 2023 in accordance with normal audit partner rotation arrangements at which point a new audit partner will be introduced to the Company in due course. The Companies Law requires the reappointment of the external auditor to be subject to Shareholders' approval at the AGM.

Prior to the commencement of their audit, PricewaterhouseCoopers CI LLP presented their audit plan to the committee, and we requested further clarification on the work they would perform in relation to revenue recognition and accruals, valuation of the portfolio and disclosures in light of the Company's forthcoming Continuation Vote.

### Effectiveness of the External Auditors

We evaluated the performance of PricewaterhouseCoopers CI LLP during the year and also reviewed the effectiveness of the external audit process.

The following factors were considered:

- the quality of the interactions between the audit team and the committee, the Investment Adviser and the Administrator;
- key audit risks identified and how the external auditor addressed these risks;
- the external auditor's progress achieved against the agreed audit plan and communication of any changes to the plan, including changes in perceived audit risks;
- the competence with which the external auditor handled the key accounting and audit judgments and communication of the same with management and the committee;
- the external auditor's compliance with relevant regulatory, ethical and professional guidance on the rotation of partners;
- the content of the external auditor's management letter and audit findings report;
- the external auditor's qualifications, expertise and resources and their own assessment of their internal quality procedures; and
- the stability and continuity that would be provided by continuing to use PricewaterhouseCoopers CI LLP.

Details of fees paid to PricewaterhouseCoopers CI LLP during the year are disclosed in Note 21. We approved these fees after a review of the level and nature of work to be performed and are satisfied that they are appropriate for the scope of the work required.

The FRC's Audit Quality Review team (AQR) carried out a review of the audit of PricewaterhouseCoopers CI LLP's financial reporting for the financial year ended 31 March 2022. The Chairman of the committee received a full copy of the findings and met with PricewaterhouseCoopers CI LLP to discuss the matters raised in the review and reported back to the committee on this discussion. PricewaterhouseCoopers CI LLP have acknowledged and addressed the matters raised in the review, and we are satisfied they have been appropriately addressed in the audit for this year end.

We are satisfied with PricewaterhouseCoopers CI LLP's effectiveness and independence as external auditor having considered the degree of diligence

and professional scepticism demonstrated by them. As such, we have not considered it necessary this year to conduct a tender process for the appointment of our external auditor. Having carried out the review described above and having satisfied ourselves that the external auditor remains independent and effective, we have recommended to the Board that PricewaterhouseCoopers CI LLP be reappointed as external auditor for the year ending 31 March 2024.

A resolution to reappoint PricewaterhouseCoopers CI LLP as independent external auditor to the Company will be proposed at the forthcoming AGM.

#### Independence of External Auditor

We review the objectivity of the external auditor and the terms under which the external auditor may be appointed to perform non-audit services and the level of non-audit fees. In order to safeguard external auditor independence and objectivity, we ensure that no other advisory and/or consulting services are provided by the external auditor. Any non-audit services conducted by the external auditor require our consent before being initiated.

The external auditor may not undertake any work for the Company in respect of preparation of the financial statements, preparation of valuations used in financial statements, provision of investment advice, taking management decisions or advocacy work in adversarial situations.

To fulfil our responsibility regarding the independence of the external auditor, we considered:

- the audit personnel in the audit plan for the current period;
- a report from the external auditor describing its arrangements to identify, report and manage any conflicts of interest; and
- the extent of non-audit services provided by the external auditor.

#### Non-audit Services

We seek to ensure that any non-audit services provided by the external auditor do not conflict with their statutory and regulatory responsibilities, as well as their independence, before giving written approval prior to their engagement.

We regularly monitor non-audit services being provided by PricewaterhouseCoopers CI LLP to ensure there is no impairment to their independence or objectivity. The only non-audit services provided by PricewaterhouseCoopers CI LLP related to an interim review of the Company's Interim report for the period ended 30 September 2022.

Nature of service	Fee
<b>Interim Review</b>	£44,000/\$52,600
Threat(s) to independence	Safeguard(s) in place
There may exist a self-interest threat where the fees from non-audit services are in excess of the statutory audit fee or otherwise considered material to PricewaterhouseCoopers CI LLP.	The total non-audit fees for the year are significantly less than the total audit fee for the year ended 31 March 2023, and the total fees paid to the Group for both audit and non-audit services is immaterial to total PricewaterhouseCoopers CI LLP firm revenue.
A self review threat may exist where the audit team places reliance on work performed by the interim review team.	

All approved non-audit services are discussed and sanctioned at meetings of the Audit and Risk Management Committee.

Group audit fees were \$753,431 (£609,350), including fees payable in respect of the separate statutory audits of subsidiaries. The ratio of audit to non-audit work is 14.3:1. Details of Auditor's Remuneration are set out in Note 21.

Notwithstanding such services, we consider PricewaterhouseCoopers CI LLP to be independent of the Company and that the provision of such non-audit services is not a threat to the objectivity and independence of the conduct of the audit. We were satisfied that PricewaterhouseCoopers CI LLP had adequate safeguards in place and that provision of these non-audit services did not provide threats to the Auditor's independence.

I approve all non-audit services in advance, and this year they were limited to the review of the Company's Interim report for the period ended 30 September 2022. The interim review procedures are generally considered in the normal course of business, with it being common practice on having the external auditor to undertake this service. This service is permitted under FRC's 2019 Revised Ethical Standards and included within the whitelist. We considered the level of audit fees to non-audit fees to be appropriate and in line with the acceptable threshold applicable to the Company as a Guernsey domiciled company.

## 2024 Objectives

It is our intention to continue to oversee the Company's governance framework, providing valuable independent challenge and oversight.

Our proposed activities for the year ahead, in line with our core functions, include but are not limited to:

- reviewing and monitoring the integrity of the Company's financial reporting, including considering the appropriateness of environmental and social reporting;
- providing independent scrutiny and challenging the judgments made by the Investment Adviser;
- reviewing the valuations of the Group's catalogues as prepared and presented in report format by the Portfolio Independent Valuer, and making a recommendation to the Board on value of the Group's catalogues;
- reviewing and monitoring individual catalogue and portfolio performance;
- reviewing the risks facing the Group and monitoring the risk matrix;
- monitoring the internal financial control and risk management systems on which the Group is reliant;
- reviewing and considering the UK Code, the AIC Code, the FRC Guidance on audit committees; and
- meeting regularly with the external auditor to review their proposed audit plan and the subsequent audit report and assessing the effectiveness of the audit process and the levels of fees paid in respect of both audit and non-audit work.

I will be available at the AGM to answer any questions about the work of the Audit and Risk Management Committee.

On behalf of the Audit and Risk Management Committee,

**Andrew Wilkinson**

Chair of the Audit and Risk Management Committee

12 July 2023