

Audit Committee Report

As Chairman of the Audit Committee I am pleased to outline below the responsibilities of the Committee and how the Committee has carried these out during the year.

Overview

The Committee met three times during the year. The external auditors attended all meetings at the invitation of the Committee Chairman. The Committee also met with the external auditors without the presence of Executive Directors or management.

Terms of Reference

The principle duties carried out in the year were to:

Review and monitor the integrity of the Financial Statements, reviewing significant financial reporting issues and judgements which they contain, and recommend to the Board whether the Financial Statements give a fair, balanced and understandable view of the Group's assets, liabilities and financial position.

Receive reports on and keep under review the effectiveness of the internal controls and risk management processes, carry out an annual assessment of these processes and approve statements to be included in the Annual Report concerning internal controls and risk management.

Oversee the Company's relations with the external auditors and consider and make recommendations on the appointment, reappointment and removal of the external auditors.

Monitor and review the effectiveness of the internal audit programme in the context of the overall risk management system to ensure that the internal audit is operating efficiently and effectively within the organisation, review and assess the internal audit plan and reports, recommendations and management responses.

Financial Reporting

During the year, the Committee concluded that the Annual Report and Financial Statements, taken as whole, were fair, balanced and understandable and provided the information necessary for shareholders to assess the Group's business model, strategy and performance. During the year, the Committee considered the following key matters of judgement:

- Revenue recognition policy;
- Valuation of goodwill and intangible assets;
- Impairment;
- Pensions; and
- Significant non-recurring items.

In terms of Going Concern the Committee considered the impact of Covid-19 on the budget for 2021/2 and a range of scenarios for both the budget and the business plan for 2023/24 including a reasonable worst-case scenario. It was concluded that the Going Concern basis is appropriate.

The Committee reviewed the full-year and half-year results announcements, Annual Report and Financial Statements and considered reports from the external auditors. The Committee also reviewed the Strategic Report and concluded that it presented a useful and fair, balanced and understandable review of the business.

External Audit

The Committee considered the effectiveness of the audit, which was the second audit undertaken by PwC. The audit process was more efficient than previous years due to the use of new communication systems and a common business system used for the full year throughout the major sites. The discussions relating to judgemental items were carried out in a timely manner and the audit challenges were rigorous and appropriate.

During the year, the fees paid to the auditors, PwC, were £183,000 (2019: £193,000 for audit services, and £20,000 (2019: £nil) for non-audit services. No services were provided pursuant to contingent fee arrangements.

The Committee reviewed and considered a number of factors to assess the auditors' objectivity and independence, including their internal procedures, the degree and nature of challenges and scepticism shown by the partner. The Committee is satisfied with PwC's independence, objectivity and expertise and believes the Group is subjected to a rigorous audit process. The Board will recommend their ongoing appointment at the AGM.

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Risk Management and Internal Controls

The risk management process this year was improved by incorporating it into the early stage of the strategic planning process. A report was prepared that identified the risks, the procedures in place to mitigate those risks and uncertainties and the potential impact on the Group. The Committee reviewed this report and reported its views to the Board. The principal risks and uncertainties to which the Group is exposed are set out in the Strategic Report on pages 30 to 33.

During the year the Committee completed a full review and refresh of the Group's internal Control Framework, across five key process risk areas and approved revised delegated authorities. Related IT controls have been implemented, following the completion of the roll out of the new Financial M3 system. Policies and controls have now been harmonised across all sites and a process of a regular review of the Consolidated Statement of Financial Position has been introduced. It was agreed that the revised Controls Framework would provide a robust structure for future internal audit reviews.

A programme of rolling internal audit reviews was reviewed by the Committee together with follow up actions required. In particular the reviews this year focused on the implementation of the new M3 financial system and there were no material matters arising. The Committee agreed new internal audit procedures based on compliance with the new internal Control Framework.

Whistleblowing

The Committee considered reports of whistleblowing from the independent service provider and during the year approved a new policy to clarify the circumstances in which it is appropriate to use the whistleblowing procedure and to explain the legal protection for employees.

Other Matters

During the year the Committee completed a deep dive into cyber-security and received an independent assessment from Willis Tower Watson. The NCSC Cyber Essentials accreditation was achieved and the business is working to obtain the Essentials plus rating in 2021.

The Committee also received a presentation from the Group's Health and Safety Manager, outlining progress on the strategy. HSE engagement has increased significantly and goals agreed for all sites. Workplace is now used for inter-site communications and sharing best practices. The Committee recognised significant improvement during the past year.

Additional duties were to review foreign exchange, interest rate and commodity hedging policies, review the Group's insurance policies and a review of the Audit Committee's effectiveness.

Conclusion

Having given due and full consideration to all the matters referred to above, the Committee is satisfied that the Group has in place effective internal control systems and risk management process. The Committee is also satisfied that the Financial Statements present a fair, balanced and understandable view and provide shareholders with the necessary information to assess the Group's position and performance, strategy and business model.

Bob Beveridge

Chairman of the Audit Committee