

AUDIT AND RISK COMMITTEE REPORT

**Dear Shareholder,
I am pleased to report to you on the
Audit and Risk Committee's objectives,
responsibilities and activities during 2023,
being my first report since taking over as
Committee chair in May 2023.**



Committee composition



Frank Nelson Alison Littlely Will Truman

The Committee recognises the important work being undertaken by the Financial Reporting Council (FRC) on UK audit and corporate governance reform. With this in mind, a major part of the Committee's work in 2023 has been to review the Group's approach to risk management and internal controls, and to develop recommendations to further improve their effectiveness. Implementation of these changes has begun and will continue into 2024, as the regulations develop.

In terms of risk management, following the cyber attack we experienced in 2022, cyber security has remained a very high priority for the Group. The Committee has provided close oversight and monitoring for the programme of IT infrastructure and training improvements, which have been progressed to enhance resilience and security. This has been supplemented by an externally-facilitated cyber security audit by Mazars LLP, the conclusions from which have provided further assurance to the Committee that all reasonable steps are being undertaken to mitigate the risks in this area, and an action plan for further improvements in 2024.

In addition to the cyber audit, the Internal Audit programme for 2023 included a review of six further business areas, details of which are included on page 96. These reviews did not highlight any high-risk issues and demonstrated solid foundations upon which further developments and improvements can be based.

In reviewing the 2023 Annual Report, in addition to considering the key areas of accounting estimates and judgements noted on page 94, the Committee reviewed the classification as a non-underlying item of certain cloud-based computing and restructuring costs incurred in the year, and concluded that it was appropriate.

Collectively, this work has provided the necessary assurance to the Committee that internal controls and governance are both adequate and working effectively. A summary of our activities, including the key accounting estimates and judgements made, is set out in this report.

Finally, I would like to thank my fellow Committee members, and both the internal and external auditors, for their valuable contribution and support during year.

Iraj Amiri
**Chair of the Audit and
Risk Committee**

19 March 2024



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Role and responsibilities:

The key responsibilities of the Committee are to:

- Review the Annual Report, Half-Year Report and any other formal announcements relating to the Group's financial performance, giving due consideration to significant accounting issues and judgements contained therein, as well as compliance with accounting standards and other legal and regulatory requirements
- Review the Annual Report and Financial Statements to advise the Board on whether they give a fair, balanced and understandable explanation of the Group's business and performance over the relevant period
- Review the effectiveness of the Group's financial reporting systems and procedures
- Consider the Group's internal controls and risk management systems and advise the Board whether they are adequate, by receiving reports on their effectiveness from the Chief Financial Officer and Chief Executive, together with reports from the Group's outsourced internal auditors and from the external auditor
- Review updates to the Group's risk register presented by management
- Oversee the Group's procedures to ensure compliance with the provisions of the Bribery Act 2010 and the Group's Whistleblowing Policy
- Consider the external auditors' independence and objectivity, audit and non-audit fees and make recommendations regarding audit tender and the appointment and remuneration of the auditors, together with the terms of their engagement
- Review the annual audit plan and monitor the effectiveness of the external audit process
- Monitor and review the effectiveness of the outsourced internal audit function, including a review of the internal audit plan, all internal audit reports, and management's responses to the findings and recommendations of the internal audit function
- Consider the adequacy of the Group's finance function
- Review the Group's Tax Strategy
- Review the Committee terms of reference.

- Considered reports by management related to the effectiveness of the Group's systems of risk management and internal control
- Reviewed the Group's risk register, including principal and emerging risks
- Considered reports prepared by the Group's outsourced internal audit function
- Considered the results of the internal assessment of the Committee's effectiveness
- Approved updates to the Committee's terms of reference.

The Committee was also kept up to date with changes to accounting standards and developments in financial reporting, company law and other regulatory matters through presentations from the external auditors, Chief Financial Officer and the Company's finance function.

The role of the Audit and Risk Committee is to oversee financial reporting, review the ongoing effectiveness of the Group's internal controls and provide assurance on the Group's risk management processes. The Committee also assesses information received from the external and internal audit functions.

Following the 2023 year end, at the March 2024 meeting, the Committee reviewed and recommended for approval by the Board, the financial results for the year ended 31 December 2023, including a review of the full-year external audit.

As part of that process, the members of the Committee reviewed the Annual Report, including the adequacy of the disclosure with respect to going concern and viability reporting. The Committee considered the appropriateness of preparing the accounts on a going concern basis, including consideration of forecast plans, and supporting assumptions, as well as sensitivity analysis and concluded that the Company's financial position was such that it continued to be appropriate for accounts to be prepared on a going concern basis.

This additional review by the Audit and Risk Committee, supplemented by advice received from external advisers during the drafting process, assisted the Board in determining that the report was fair, balanced and understandable at the time that it was approved.

Summary of activities during the year

The Audit and Risk Committee met formally four times during the year and attendance at the meetings is shown on page 82.

The areas of particular focus for the Committee in 2023, and up to the date of this Annual Report, were as follows:

- Continued oversight of the investments in, and improvements to, the Company's IT infrastructure to continually strengthen the cyber defences and further develop resilience and security (including consideration of the conclusions from the cyber audit – see below)
- Reviewed the overall approach of the risk management function and developed recommendations regarding the effectiveness, formalisation and documentation of both new and existing policies and processes
- Considered the appropriate accounting treatment, reporting and presentation of cloud-based computing costs in light of the material levels of expenditure planned for a new ERP system implementation
- Considered the appropriate accounting treatment, reporting and presentation of restructuring costs incurred in Q2
- Reviewed documentation prepared to support the viability statement and going concern assumption set out on page 73
- Reviewed the external auditors' plan for their audit for the year ended 31 December 2023
- Reviewed reports from the external auditors setting out their findings as a result of their audits for the years ended 31 December 2022 and 2023, as well as their review of the 2023 Half-Year Report
- Considered the impact of any new accounting standards and financial reporting requirements, including guidance issued by the Financial Reporting Council ('FRC')

AUDIT AND RISK COMMITTEE REPORT CONTINUED

Audit and Risk Committee members

During 2023, the Audit and Risk Committee comprised:

Chair:

Iraj Amiri (Chair from 11 May 2023)

Committee members:

Frank Nelson (Chair to 11 May 2023)

Alison Littlely

Will Truman (from 15 May 2023)

All members of the Committee served throughout the year, unless otherwise stated.

The Governance Code recommends that all members of the Audit and Risk Committee are Non-executive Directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement and that one such member has recent and relevant financial experience.

The Board considers that the Company complies with the requirements of the Governance Code in this respect and that, by virtue of their extensive experience, details of which are set out on pages 74 and 75, Iraj Amiri, a Fellow of the Institute of Chartered Accountants in England and Wales, Frank Nelson, a Fellow of the Chartered Institute of Management Accountants, and Will Truman, a Fellow of the Institute of Chartered Accountants in England and Wales, all have recent and relevant financial experience. Furthermore, all Committee members have extensive relevant commercial and operational experience, including in building/construction and industrial organisations, which both benefit the Committee and collectively illustrate its competence relevant to the sector in which the Group operates.

Only members of the Committee have the right to attend Committee meetings, but both the internal and external auditors were invited to attend all meetings during the year, as a matter of course. The Chair of the Board, the Chief Executive, the Chief Financial Officer and other members of the Board were also invited to attend all the Committee meetings during the year.

In addition, the external and internal auditors met regularly with the Committee without executive management being present and met separately with each of the Audit and Risk Committee Chair and the Chief Financial Officer.

The Audit and Risk Committee will meet as often as it deems necessary but, in accordance with its terms of reference, at least three times a year.

Key accounting estimates and judgements

As described above, the Committee reviewed the key estimates and judgements used in the preparation of the Group's 2023 Financial Statements (including a review of PricewaterhouseCoopers LLP's report and a discussion of their observations and findings in this area) as follows:

Area	Estimate/judgement	Management's approach	Committee's review
Inventory valuation	Absorption of labour and overhead costs into stock	Review of raw material price variances (vs historic standard cost) and overhead absorption included in stock valuation. Standard costs updated costs to reflect latest raw material and other input cost prices	Critically reviewed the carrying value of the Group's inventory, the approach taken by management and assessed the reasonableness of the underlying assumptions and financial forecasts used
	Provisions for slow-moving items and discontinued product lines	Assessment of the appropriate level of provisioning against obsolescence, undertaken in the context of current trading and the forecast for the next financial year and beyond	
Accounts receivable recoverability	Provisions for bad and doubtful debts	Application of IFRS 9's expected credit loss approach to the impairment of receivables (which requires the use of forward-looking statistical modelling to determine the appropriate level of provision), plus overlays to take into account other material factors affecting recoverability, including credit insurance	Critically evaluated the methodology with respect to setting provisions for potential bad and doubtful debts, including management's assessment of macro uncertainty, as well as the absolute level of provisions held ¹

¹ The Committee's review also considered the specific nature and characteristics of customers in the Group's two major divisions.

Risk management

The Group's risk management processes are set out in detail on pages 66 and 67.

In the light of the Financial Reporting Council's (FRC) work on UK audit and corporate governance reform, the Group has reviewed its approach to risk management and internal controls, and developed a plan to further improve their effectiveness.

Implementation of these changes has begun and will continue into 2024, as the regulations develop.

A formal Risk Appetite Statement has been developed and approved by the Board, with work on frameworks for risk management, assurance strategy, and policy management in progress, along with the implementation of enhanced risk assessment tools to support the risk management approach.

These tools include the preparation of a risk canvas, the completion of checklists from the FCA's Systems and Controls Sourcebook and Corporate Governance code, and a risk materiality assessment.

The Group's Risk Management Committee is chaired by the Chief Financial Officer. This Committee reviews significant risks and the status of related mitigating actions.

The Audit and Risk Committee reviews the risk register twice per year to ensure the timely identification and robust management of inherent and emerging risks is taking place. To the extent that any failings or weaknesses are identified during the review process, appropriate measures are taken to remedy these.

Information relating to the management of risks and any changes to the assessment of key risks is reported by the Audit and Risk Committee to the Board.

Internal controls

The Board is responsible for the overall system of internal controls for the Group and for reviewing its effectiveness. The Board receives assurance on internal control effectiveness at least annually, covering all key controls including financial, operational and compliance controls and risk management systems.

In particular, the Board discharges its duties in this area by:

- Holding regular Board meetings to consider the matters reserved for its consideration
- Receiving regular management reports which provide an assessment of key risks and mitigating actions
- Scheduling annual Board reviews of strategy including consideration of the material risks and uncertainties facing the business
- Ensuring there is a clear organisational structure with defined responsibilities and levels of authority which are regularly reviewed
- Scheduling regular Board reviews of performance against financial budgets and forecasts.

In reviewing the effectiveness of the system of internal controls, the Audit and Risk Committee:

- Reviews the risk register compiled and maintained by senior managers within the Group, at least bi-annually, receives reports on near misses, errors and inaccuracies
- Receives management assurance on the effectiveness of the systems of financial and accounting controls
- Regularly reviews the internal audits performed and the progress against previously raised recommendations.

The Group has several operating policies and controls in place covering a range of issues including financial reporting, capital expenditure, business continuity and information technology, including cyber security, and appropriate employee policies. These policies are designed to ensure the accuracy and reliability of financial reporting and govern the preparation of financial statements.

In respect of the Group's financial reporting, the Finance function is responsible for preparing the Group financial statements using a well-established process and for ensuring that accounting policies are in accordance with International Financial Reporting Standards.

Consolidated accounts are prepared directly within the Group's SAP system. All business units report on SAP, with no adjustments processed outside of the system, other than the accounting entries to reflect IFRS 16 (Leases), which are produced by a specialist lease accounting software package. Full balance sheet reconciliations are prepared every month and independently reviewed by senior finance staff. The Chief Financial Officer reviews consolidated and business unit financial statements with the Chief Executive every month. All financial information published by the Group is subject to the approval of the Audit and Risk Committee.

Following the cyber incident in 2022, we have continued to invest in infrastructure to improve resilience and security in this area. The Group's IT team have remained vigilant to cyber risks and have rolled-out enhanced regular cyber training for all staff.

Other than as described above, there have been no changes in the Company's internal control systems during the financial year under review that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

In addition, as noted above, management continue to consider the impacts of the various reforms and proposed developments for UK audit and corporate governance and have provided recommendations to the Committee on the potential changes required for compliance. The business is in a good position to meet the new requirements as and when they become applicable.

The Board, with advice from the Audit and Risk Committee, is satisfied that an effective system of internal controls and risk management is in place which enables the Company to identify, evaluate and manage key and emerging risks and which accords with the guidance published by the FRC.

These processes have been in place since the start of the financial year and up to the date of approval of the accounts. Further details of specific material risks and uncertainties facing the business can be found on pages 68 to 72.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

Internal audit

KPMG LLP provide an outsourced Internal Audit function which complements the internal finance-based checks performed on the branch network operations.

The Committee, working in conjunction with KPMG LLP, approved a full programme for 2023 which was compiled based on the following specific categories:

- **Risk:** internal audit reviews specifically linked to Eurocell's key financial and operational risks

- **Routine:** internal audit reviews covering financial, regulatory, compliance and IT operations which require cyclical assurance coverage
- **Request:** internal audit reviews that have been specifically included at the request of either management or the Audit Committee.

A summary of the 2023 programme is as follows:

Internal audit programme	Summary of findings
Branch Audit Programme	<ul style="list-style-type: none"> • Good progress since last audit, including development of risk assessments to identify high risk sites, enhanced reviews of audit content/coverage, and the development of process documentation • Areas for improvement mainly around formalisation of the audit process, including branch selection methodology and documentation for recording audit results.
Supply Chain Ethics and Resilience	<ul style="list-style-type: none"> • Good practice via regular pricing reviews undertaken with key suppliers (top 80% spend) to ensure value for money amongst suppliers, particularly in markets where prices fluctuated regularly • Further formalisation required to ensure all main processes are defined and documented, to enhance clarity and accountability across the end-to-end supplier relationship management process.
Anti-bribery and corruption ('ABC')	<ul style="list-style-type: none"> • Low inherent risk of bribery and corruption, with business ethics related policies recently refreshed and dedicated training modules launched • Ongoing work to fully embed all ABC controls (via the new HR system) and formalise some processes.
General Ledger ('GL')	<ul style="list-style-type: none"> • Adequate control environment in place with set processes in place for managing GL activities • Some areas of improvement relating to the absence of an overarching GL policy and system limitations for approval of manual journals (although compensating preventative controls in place).
Follow up	<ul style="list-style-type: none"> • Management demonstrated commitment to tracking and implementing agreed internal audit actions, supported by documentary evidence to verify the completion status of the actions considered • 10 of the 13 medium/high rated actions were confirmed as implemented, with the remainder either superseded or risk-accepted. No action marked as implemented was found to be incomplete or in progress.
Cyber (performed by Mazars LLP)	<ul style="list-style-type: none"> • Key gaps have been mitigated by the significant investment in cyber projects across the estate to constantly monitor infrastructure and endpoints for potential threats • Areas for further improvement include: <ul style="list-style-type: none"> – Technical recommendations in relation to data loss prevention (DLP) and improving the effectiveness of detection capabilities – Technical recommendations relating to insecure protocols and misconfigured endpoints, which have already been resolved – Formalisation of the cyber risk management strategy and related documentation.

The Committee also formally reviews the Group's progress in implementing the improvement recommendations raised through the internal audit process in conjunction with the Executive Committee members, and overall progress remains satisfactory.

Whistleblowing, bribery and business ethics

The Group is committed to the highest standards of openness, honesty, integrity and accountability.

The Group maintains a suite of policies which support our commitment to strong business ethics and for which we take a strict approach to non-compliance.

This includes policies related to:

- Financial crime
- Conflicts of interest
- Gifts and hospitality
- Share dealing.

During the year, the Group refreshed and re-issued all business ethics related policies and developed a new business ethics training module for all staff to complete.

Management believe this refresh, coupled with our Whistleblowing Policy (see below), which was updated and relaunched in 2022, has been successful in improving staff awareness and understanding in this area.

The Whistleblowing policy makes employees aware that they should report any serious concerns or suspicions about any wrongdoing or malpractice on the part of any employee of the Group, without fear of criticism, discrimination or reprisal, as well as the procedure for raising such concerns.

During the year, there were no reports received through the whistleblowing process (2022: nil), and therefore no significant trends were identified.

The Committee also takes responsibility for reviewing the policies and procedures adopted by the Group to prevent bribery and corruption and the Group is committed to a zero-tolerance position in this respect. The Committee is satisfied that the Group's procedures with respect to these matters are adequate.

In accordance with the obligations under the Reporting on Payment Practices and Performance Regulations 2017, the Company has submitted its bi-annual reports in line with the legislation during the year.

The Group's Modern Slavery Statement, which sets out details of the policies in relation to slavery and human trafficking, as well as its due diligence processes with its partners, has been published on the Group's website at www.eurocell.co.uk.

The Group has also updated its Tax Strategy Statement, again published on our website, in compliance with the Finance Act 2016, which sets out details of the Group's attitude to tax planning and tax risk. In addition, the Group continues to be certified as an accredited Fair Tax Mark business, recognising our responsibility to pay the right amount of tax, in the right place, at the right time.

External audit and auditors' independence

The Audit and Risk Committee has primary responsibility for making a recommendation to the Board on the appointment, reappointment, removal and remuneration of the external auditors. It keeps under review the scope and results of the audit, its cost-effectiveness and the independence and objectivity of the auditors.

The external auditors are required periodically to assess whether, in their professional opinion, they are independent and those views are shared with the Audit and Risk Committee.

The Committee has authority to take independent advice as it deems appropriate in order to resolve issues on auditor independence. No such advice has been required to date. There are no contractual obligations in place that restrict the choice of statutory auditors.

The Group's current auditors, PricewaterhouseCoopers LLP were appointed at the Audit and Risk Committee meeting on 29 April 2015, following the Company's IPO in March 2015. As a result, PricewaterhouseCoopers LLP may remain as external auditors without re-tender for ten years from that date, until the completion of the 2024 annual audit. The Committee considers the need to tender the audit on an annual basis and a detailed review will be undertaken, in due course, in light of the approaching deadline noted above.

In accordance with best ethical standards, PricewaterhouseCoopers LLP has processes in place designed to maintain independence, including the rotation of the audit engagement partner at least every five years. As a result of these processes, the current audit engagement partner, Chris Hibbs, assumed full responsibility since the 2020 audit.

The Committee has also adopted policies to safeguard the independence of its external auditors which are underpinned by principles that ensure that the external auditors do not:

- Audit their own work
- Make management decisions for the Group
- Create a conflict of interest
- Find themselves in the role of advocate for the Group.

Any work awarded to the external auditors with a value of more than £5,000 in aggregate in any financial year, other than an audit, requires the specific approval of the Committee. Where the Committee perceives that the independence of the auditors could be compromised, the work will not be awarded to the auditors.

Details of amounts paid to PricewaterhouseCoopers LLP for audit and audit-related assurance services in 2023 are set out on page 144. The audit-related assurance services provided during the year were in relation to the Half-Year Report (£41,500) and the sustainability targets included in the Company's banking facility (£28,000).

Prior to recommending the appointment of PricewaterhouseCoopers LLP at the forthcoming AGM to the Board, the Committee reviewed the audit process, the performance of the auditors and their ongoing independence, taking into consideration:

- An assessment of the lead audit partner and the audit team, including their responses to questions from the Committee
- A review of the audit approach, scope, determination of significant risk areas and materiality
- The execution of the audit, including the increased use of technology, and the audit findings reported
- Input from, and interaction with, management and communication with, and support to, the Committee
- The quality of any recommendation points; and a review of independence, objectivity, scepticism and their ability to challenge.

Based on this review, the Committee concluded that the external audit process had been run efficiently and that PricewaterhouseCoopers LLP has been effective in their role as external auditors.

The Committee is satisfied that the independence of the external auditors is not impaired and the level of fees paid for non-audit services, details of which are set out in Note 5 to the Financial Statements, does not jeopardise their independence. In conclusion, the Committee has assessed the performance and independence of the external auditors and recommended to the Board the reappointment of PricewaterhouseCoopers LLP as auditors until the AGM in 2025.

Iraj Amiri Chair of the Audit and Risk Committee

19 March 2024