

Audit and Risk Committee

Statement from Frank Nelson, Chair of the Audit and Risk Committee



Members:

Frank Nelson (Chairman)
Martyn Coffey

The Company Secretary acts as secretary to the Committee.

Role and Responsibilities:

The principal duties of the Audit and Risk 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 Group's financial reporting systems and procedures.
- Review the Group's internal controls and risk management systems and advise the Board whether they are adequate, by considering reports on their effectiveness from the Chief Financial Officer and Chief Executive Officer, together with reports from the Group's outsourced internal auditor and from the external auditor.
- Review and update the Group's risk register.
- Review the Group's procedures to ensure compliance with the provisions of the Bribery Act 2010 and the Group's whistleblowing policy.
- Review 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. Review the internal audit plan, all internal audit reports, and review and monitor 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.

Dear Shareholder,

I am pleased to report to you on the Audit and Risk Committee's objectives and activities during 2017. This report, which is part of the Directors' Report, explains how the Audit and Risk Committee has discharged its responsibilities during 2017, and reflects the recent changes to reporting under the Code. I hope you find it useful and informative.

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

The Committee has reviewed the Group's Financial Statements contained in this Annual Report and is satisfied that they present a fair, balanced and understandable assessment of the Group's position and prospects. The Committee has provided assurance to this effect to the Board.

The Audit and Risk Committee is the body appointed by the Board with responsibility for carrying out the functions required by the Listing Rules DTR 7.1.3R. The terms of reference of the Committee include all the matters required under the Code.

The Chairman of the Committee is a Fellow of the Chartered Institute of Management Accountants and the Board is satisfied he has recent and relevant financial experience as required by the Code.

During the year, the Audit and Risk Committee held four scheduled meetings. Attendance is shown on page 44.

The external auditors were invited to attend all meetings of the Committee. Other individuals, such as the Chief Executive Officer, the Chief Financial Officer and other members of the Board are invited to attend the Committee meetings as and when appropriate.

In addition, the external auditors' met with the Committee without executive management being present. The external auditors' also met separately with each of the Audit and Risk Committee Chairman and the Chief Financial Officer.

Audit and Risk Committee continued

Summary of activities

The areas of particular focus for the Committee in 2017, and up to the date of this Annual Report, were as follows:

- Reviewed the 2016 and 2017 Annual Reports, as well as the 2017 Half-Year Report.
- Considered information presented by management on significant accounting estimates and judgements adopted in respect of the Group's 2016 and 2017 Financial Statements and the 2017 Half-Year Report.
- Reviewed reports from the external auditors' setting out their findings as a result of their audits for the years ended 31 December 2016 and 2017, as well as their review of the 2017 Half-Year Report.
- Reviewed the external auditors' plan for their audit for the year ended 31 December 2017.
- Reviewed documentation prepared to support the viability statement and going concern assumption set out on page 39.
- Considered the impact of new accounting standards and financial reporting requirements, including guidance issued by the Financial Reporting Council ('FRC').
- 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.
- Considered reports prepared by the Group's outsourced internal audit function.
- Reviewed and updated the Group's Whistleblowing and Anti-bribery policies.

The Committee is 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.

Key accounting estimates and judgements

As described above, the Committee reviewed the key estimates and judgements used in the preparation of the Group's 2017 Financial Statements. These were as follows:

Inventory valuation

The Committee critically reviewed the carrying value of the Group's inventory, particularly with regard to management's assessment of the appropriate level of provisioning against obsolescence as at 31 December 2017. This review was undertaken in the context of current trading and the forecast for the next financial year. The Committee concurred with management's assessment of the carrying value of Group inventory. The Committee noted that there continues to be considerable management focus on both the optimisation of finished goods inventory levels and, looking forward, on the operational controls over the management of inventory.

Accounts receivable recoverability

The Committee considered and critically evaluated the Group's methodology with respect to setting provisions for potential bad and doubtful debts, as well as the absolute level of provisions held as at 31 December 2017. The review took into account the specific nature and characteristics of customers in the Group's two major divisions. The Committee is satisfied that the current level of provisions is appropriate.

Provisions for dilapidations on leased properties

The Group currently operates with 190 branches, each of which is situated in a leased property. Leases are typically for five years, with a three-year break clause. The Committee undertook a review of the methodology used to estimate the liability for remedial works that may arise with respect to the Group's leasehold properties, as well as the absolute level of provision held and amounts utilised. The Committee is satisfied that the current level of provision is reasonable.

Carrying value of intangible assets

The carrying value of goodwill and intangible assets are assessed at least annually, or when an indication of impairment arises. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down. The Committee is satisfied that the key estimates applied to assess the recoverable amounts are reasonable. Further details on impairment along with the key estimates are provided in Note 16.

Risk management

The Group's risk management processes are set out in detail on pages 34 to 35.

The Group maintains a written risk register that identifies key risks, the probability of those risks occurring and the impact they would have on the Group if unmitigated. Against each gross risk, the controls that exist to manage and, where possible, minimise or eliminate those risks are also listed, and an assessment of net risk is provided. The risk register also identifies any further actions required such that net residual risk is consistent with the risk appetite set by the Board. The register is regularly updated to reflect changes in circumstances.

The Group, established a Risk Management Committee early in 2017, chaired by the Chief Financial Officer. This Committee reviews the most significant risks and the status of related mitigating actions each month, with other risks reviewed on a cyclical basis.

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 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 Group has an established internal control framework, the key features of which include clearly defined reporting lines and authorisation limits and a comprehensive budget and monthly reporting system. The schedule of authorisation limits was updated in December 2016, to reflect the development of the business since its IPO, and approved by the Board.

The internal control framework governs the internal financial reporting process of the business, with checks and balances built into the system that are designed to reduce the likelihood of material error or fraud.

The Committee monitors and reviews the effectiveness of internal controls on an ongoing basis, primarily by reviewing reports from senior management.

Internal audit

In order to further enhance the internal control and risk management processes, the Group implemented an outsourced internal audit function in March 2017. Following a formal tender process the Company appointed KPMG to fulfil this role. The Committee worked with KPMG to set the programme for internal audit in 2017, which included reviews over the Group's risk management systems, payroll, cyber security, GDPR readiness and management's branch audit process.

External audit and auditors' independence

The Audit and Risk Committee has primary responsibility for making a recommendation to the Board on the appointment, reappointment and removal 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'. There are no contractual obligations restricting our choice of external auditors.

The Group's current auditors' PwC were appointed at the Audit and Risk Committee meeting on 29 April 2015, following the Company's IPO. PwC has processes in place designed to maintain independence, including regular rotation of the audit partner.

The Committee has also adopted policies to safeguard the independence of its external auditors'. 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 it. Details of amounts paid to PwC for audit and audit related assurance services in 2017 are set out on page 88.

An annual review of external audit effectiveness is undertaken by the Committee.

Whistleblowing and bribery

The Audit and Risk Committee monitors any reported incidents under our whistleblowing policy, which is available to all employees. This policy sets out the procedure for employees to raise legitimate concerns about any wrongdoing without fear of criticism, discrimination or reprisal. No matters were raised under the policy during 2017.

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

Frank Nelson
Chair of the Audit and Risk Committee
 8 March 2018