

# Audit and Risk Committee

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



## Members:

Frank Nelson (Chairman)  
Martyn Coffey  
Sucheta Govil

The Company Secretary acts as secretary to the Committee.

## 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 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 auditor's independence and objectivity, audit and non-audit fees and make recommendations regarding audit tender and the appointment and remuneration of the auditor, 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 2018. This report, which is part of the Directors' Report, explains how the Audit and Risk Committee has discharged its responsibilities during 2018, 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 4 scheduled meetings. Attendance is shown on page 46.

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 auditor met with the Committee without executive management being present. The external auditor met separately with each of the Audit and Risk Committee Chairman and the Chief Financial Officer.

## Summary of activities

The areas of particular focus for the Committee in 2018, and up to the date of this Annual Report, were as follows:

- Reviewed the 2017 and 2018 Annual Reports, as well as the 2018 Half-Year Report.
- Considered information presented by management on significant accounting estimates and judgements adopted in respect of the Group's 2017 and 2018 Financial Statements and the 2018 Half-Year Report.
- Reviewed reports from the external auditor setting out their findings as a result of their audits for the years ended 31 December 2017 and 2018, as well as their review of the 2018 Half-Year Report.
- Reviewed the external auditor's plan for their audit for the year ended 31 December 2018.
- Reviewed documentation prepared to support the viability statement and going concern assumption set out on page 40.

## Audit and Risk Committee continued

### Summary of activities continued

- 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 auditor, 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 2018 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 2018. 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 2018. This work included a review of the Group's implementation of IFRS 9 (Financial Instruments), which became effective on 1 January 2018. Under the new standard, the Group adopted the expected credit loss approach to receivables impairment, which requires the use of forward-looking statistical modelling to determine the appropriate level of provision. The Committee's review also took into account the specific nature and characteristics of customers in the Group's 2 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 over 200 branches, each of which is situated in a leased property. Leases are typically for 5 years, with a 3-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.

### Valuation of intangible assets

The Committee considered the key estimates applied in valuing identifiable intangible assets generated through business combinations, including customer relationship assets. The Committee is satisfied that key estimates applied to value acquired intangibles are reasonable.

### Implementation of IFRS 15 (Revenue from Contracts with Customers) and IFRS 16 (Leases)

The Committee reviewed the Group's implementation of IFRS 15, effective 1 January 2018. The Committee agreed with management's conclusion that the impact of IFRS 15 is not material, because the Group's revenue contracts are constructed around the delivery of goods in satisfaction of individual purchase orders, and do not contain multiple performance criteria.

The Committee also reviewed the Group's preparation for the implementation of IFRS 16, effective 1 January 2019. This work included completeness tests for transactions within the scope of the new standard and an assessment of key assumptions (e.g. discount rates applied). The Committee is satisfied that the Group is well prepared to implement the new leasing standard from the effective date and that the associated disclosures included in the 2018 Financial Statements are appropriate.

### Non-underlying income and expenditure

The Committee reviewed the presentation of the Statement of Comprehensive Income, which includes the classification of certain items of income and expenditure as non-underlying. The Committee is satisfied that the non-underlying items are appropriately classified and that application of a three-column approach to the statement provides a fair and balanced presentation of the Group's results for the year.

### Risk management

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

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

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 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 is regularly reviewed to ensure it remains appropriate as the business develops.

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

KPMG provide an outsourced Internal Audit function. During 2018, the Committee worked with KPMG to set the programme for the year, which included reviews of health and safety processes, cyber security and GDPR compliance, as well as the procure-to-pay and recruitment and retention processes. The Committee also reviewed the Group's progress implementing improvement recommendations raised through the internal audit process and found it to be satisfactory.

### 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 2018 are set out on page 91. The audit related assurance services provided were in relation to the Half-Year Report.

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 2018.

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  
14 March 2019