

AUDIT & RISK COMMITTEE REPORT

Chair



Frank Nelson

Members



Alison Littley



Iraj Amiri

Dear Shareholder,

I am pleased to report to you on the Audit and Risk Committee's objectives and activities during 2022.

This report explains how the Audit and Risk Committee has discharged its responsibilities during 2022.

From a risk management perspective, the cyber incident we experienced in July was significant. It resulted in some temporary disruption, but our core systems were restored quickly, with the business remaining operational throughout and trading normally from mid-August. Our business continuity plans responded well to a live event. In the immediate aftermath of the incident, the Committee reviewed the status of our cyber defences, and recommended additional investments in IT infrastructure to further enhance our resilience and security. This area will remain a very high priority for the Committee.

In reviewing the 2022 Annual Report, in addition to the review of the key areas of accounting estimates and judgements as noted on page 100, the Committee considered the accounting treatment of three key items: the cyber incident business interruption insurance claim income, the sale of Security Hardware and restructuring costs incurred in the year, and concluded that, in each case, it was appropriate.

The Internal Audit programme for 2022 included a review of our Whistleblowing policy, tax risks and ESG strategy. These reviews all demonstrated solid foundations upon which further developments and improvements can be based.

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.

Looking forward, the Committee has now also reviewed and considered the impacts of the BEIS White Paper on Audit and Corporate Governance reforms and believes the Company is in a good position to meet the new requirements as/when they become applicable.

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.

Frank Nelson

Chair of the Audit and Risk Committee

15 March 2023

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 auditors and from the external auditor;
- review and update the Group's risk register, as part of the assessment of emerging and principal risks;
- review the Group's procedures to ensure compliance with the provisions of the Bribery Act 2010 and the Group's Whistleblowing Policy;
- review 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; and
- review the Committee terms of reference.

Summary of activities during the year

The Audit and Risk Committee met formally three times during the year and attendance at the meetings is shown on page 88.

The areas of particular focus for the Committee in 2022, and up to the date of this Annual Report, were as follows:

- Considered the operational and financial impact of the cyber incident in July/August on the Company's IT infrastructure, financial reporting and control, including assessment of existing cyber defences, oversight for further investments to improve resilience and security in this area and the associated business interruption insurance recoverability;
- Considered the appropriate accounting treatment, reporting and presentation of the:
 - cyber incident and the business interruption insurance claim (noted above);
 - sale of Security Hardware's trade and assets; and
 - restructuring costs incurred in the year;
- Reviewed documentation prepared to support the viability statement and going concern assumption set out on page 78;
- Reviewed the external auditors' plan for their audit for the year ended 31 December 2022;
- Reviewed reports from the external auditors setting out their findings as a result of their audits for the years ended 31 December 2021 and 2022, as well as their review of the 2022 Half-Year Report;
- Considered the impact of any 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, 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; and
- 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. 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.

Following the 2022 year end, at the March 2023 meeting, the Committee reviewed and recommended for approval by the Board, the financial results for the year ended 31 December 2022, including a review of the full-year external audit.

As part of that review 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.

Audit and Risk Committee members

During 2022, the Audit and Risk Committee comprised:

Chair:

Frank Nelson (throughout 2022)

Committee members:

Alison Littley (from 7 October 2022)

Iraj Amiri (from 7 November 2022)

Sucheta Govil (to 31 July 2022)

Martyn Coffey (to 6 October 2022)

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 his extensive experience, details of which are set out on page 81, Frank Nelson, a Fellow of the Chartered Institute of Management Accountants, has 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. Other individuals, such as the Chair of the Board, the Chief Executive Officer, the Chief Financial Officer and other members of the Board were invited to attend the Committee meetings as and when appropriate.

In addition, the external 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 2022 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	Impact of raw material price inflation on stock valuation	Review of raw material price variances (vs historic standard cost) included in stock valuation	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
		Review of standard costs in early 2022 followed by a full re-costing exercise, due to be completed during H1 2023	
	Provisions for slow-moving items and discontinued product lines	Review of raw material price variances (vs historic standard cost) included in stock valuation. Review of standard costs in early 2022 followed by a full re-costing exercise, due to be completed in H1 2023. 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 70 and 71.

The Group maintains a risk register that identifies key and emerging 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 Board is responsible for the overall system of internal controls for the Group and for reviewing its effectiveness. In accordance with FRC guidance, it carries out such a review at least annually, covering all material 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 controls;
- scheduling annual Board reviews of strategy including reviews 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;

- ensuring there is a strong tone from the top, with regards to compliance and controls, which is cascaded through the organisation;
- ensuring there are documented policies and procedures in place; and
- 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 and question and challenge where necessary;
- regularly reviews the systems of financial and accounting controls;
- regularly reviews the internal audits performed and the progress against previously raised recommendations; and
- reports to the Board on the risk and control culture within the Group.

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 IFRS16 (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.

During 2022, the Group's finance and administrative teams returned to office working. However, the enhanced controls that were implemented as a result of home working during the COVID-19 pandemic have remained in place and in certain places enhanced. For example the supplier payments process is now substantially automated, significantly reducing the risks associated with manual processing.

Following the cyber incident, the Group's IT team have remained ever more vigilant to the risks in this area. As described above, we have further strengthened our defences. We have also rolled-out additional and more regular cyber training to staff. In addition, following the migration of our subsidiary, Vista Panels, all Group companies are now operating on our SAP system, further improving the financial control environment.

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, management have reviewed and considered the impacts of the BEIS White Paper on Audit and Corporate Governance reforms 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 70 to 77.

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 2022 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; and
- Request: internal audit reviews that have been specifically included at the request of either management or the Audit Committee.

A summary of the 2022 programme is as follows:

Internal audit programme	Summary of findings
Whistleblowing & Code of Conduct	<ul style="list-style-type: none"> • Sound framework is in place including relevant policies regarding Whistleblowing, Conflicts of Interest, Financial Crime and Gifts and Entertainment • Improvement opportunities, include: <ul style="list-style-type: none"> – strengthening the 'tone from the top' messaging; – enhancing some of the detail within the Whistleblowing policy; and – further development of training, awareness raising, reporting and lessons learned.
Tax risk	<ul style="list-style-type: none"> • Creation of a tax risk register has helped drive more effective and transparent tax risk controls across the business • Improvement opportunities, include: <ul style="list-style-type: none"> – further development of the tax risk process by enhancing process and role documentation, and increasing the formality around key elements – further formalisation of the tax risk governance arrangements.
ESG	<ul style="list-style-type: none"> • A sound ESG strategy and plan is in place to embed the key objectives in the business, with KPIs which are well-aligned to the UN's Sustainability Development Goals • Improvement opportunities, include: <ul style="list-style-type: none"> – further development of the framework, systems, controls, processes and data governance to enhance the KPI reporting – refinement of objectives/goals and KPI improvement targets in-line with sector best practice.

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 has a Whistleblowing Policy, which was updated and relaunched last year, with a focus on improving awareness and understanding.

This policy makes employees and third parties 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. Examples include fraud, breakdown in internal controls, misleading customers, bribery, modern slavery, dishonesty, corruption and breaches of data protection or health and safety.

During the year, there were no reports received through the whistleblowing process (2021: 5), 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. 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.

The Group also maintains a suite of other 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; and
- Share dealing.

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 (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.

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 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; or
- 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 2022 are set out on page 147. The audit-related assurance services provided during the year were in relation to the Half-Year Report (£38,500) and the sustainability measure which was introduced into the Company's banking facility (£26,400).

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; and
- 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 2024.

Frank Nelson

Chair of the Audit and Risk Committee

15 March 2023