

Governance continued

AUDIT COMMITTEE



Andrew Herbert
Chairman of the Audit Committee

Governance

The Audit Committee (the 'Committee') is appointed by the Board from the Non-Executive Directors of the Company. The Chairman of the Committee, Andrew Herbert, is deemed by the Board to have recent and relevant financial experience as he was, until 2015, CFO of FTSE listed Domino Printing Sciences plc and is a Fellow of the Institute of Chartered Management Accountants.

The Committee's terms of reference were revised and updated in March 2017 and include all matters indicated by Disclosure and Transparency Rule 7.1 and the UK Corporate Governance Code. The written terms of reference of the Committee are available on request from the Company Secretary.

Please see the tables on page 52 for details of the Committee members in the year and the number of Committee meetings attended. The Committee meetings are also attended, by invitation, by the Group Chief Executive Officer, the Chief Financial Officer and other senior financial management as appropriate, as well as by the external auditor for specific parts of the meeting.

Report from the Committee Chairman

I am pleased to present the Audit Committee's report describing our work during the past year. Deloitte LLP was reappointed as the Company's auditor at the Annual General Meeting and Paul Schofield has continued as engagement partner.

The Audit Committee's primary responsibilities are:

- To approve and monitor key financial and accounting policies and practices
- To monitor the integrity of the financial statements, announcements and review significant financial reporting judgements contained therein
- To keep under review the adequacy and effectiveness of internal controls
- To review procedures, systems and controls for whistle blowing, fraud detection and bribery prevention
- To review, approve and monitor internal audit activities
- To monitor and review the Group's external auditor's independence, objectivity and effectiveness
- To make recommendations to the Board on the appointment, remuneration and terms of engagement of the external auditor.

The Committee is not responsible for the identification of key risks or the review of the adequacy of arrangements to mitigate those risks, which remains the responsibility of the main Board.

The Committee is required to report its findings to the Board at least annually, identifying any matters on which it considers that action or improvement is needed, to make recommendations on the steps to be taken, and to ensure that the required actions are taken.

Significant issues considered by the Committee

The Committee has a work plan that is designed to ensure its responsibilities are fully discharged over the annual reporting cycle. Specific items are added to the agenda for individual meetings as required. Significant accounting matters considered during the year include revenue recognition and adoption of IFRS 15, the adequacy and appropriateness of certain provisions, inventory valuation and capitalisation of development costs under IAS 38. Other matters considered include royalty arrangements, tax policy, financing and debt arrangements and various compliance matters.

In response to changing currency exposure arising from new partnerships and the acquisition of EPS, the Committee reviewed and adopted a revised treasury policy. The new policy provides appropriate range and flexibility to hedge expected non-sterling denominated net cash inflows to the Group.

In August the Committee reviewed and adopted a revised internal audit policy. The policy now includes the use of internal resources for process and systems audits, increasing engagement from the finance teams and encouraging cross-site learning and sharing of best practice. This augments the use of third party internal audit resources.

Key activities

In discharging its responsibilities the Committee has completed the following activities:

Financial statements and reports

- Reviewed the Annual Report and financial statements and the half-yearly financial report including disclosures made therein
- Reviewed reports from the external auditor on their work and findings
- Reviewed the effectiveness of the Group's internal control environment.

Internal controls and compliance

- Agreed a schedule of internal audit activities, and reviewed the results of internal audit activities performed
- Reviewed the internal financial controls and risk management systems
- Reviewed fraud detection and the systems and controls for the prevention of bribery.

External audit

- Reviewed and agreed the scope of the audit work to be undertaken by the auditor, and reviewed non-audit services provided and the level of this work compared with the audit services provided
- Agreed the fees to be paid to the external auditor relating to their services rendered for the annual audit and interim review
- Reviewed audit work performed on significant risk areas, including those areas identified and discussed by the external auditor in their report, and ensured the independence and objectivity of the external auditor.

The Chairman of the Audit Committee will be available at the AGM to answer any questions about the work of the Committee.

External auditor

Deloitte LLP have been the Company's auditor since 2009 and there has been no tender held for audit services during that time. The Committee considers that the auditor's knowledge of the Group's business and systems gained through experience has contributed to the effectiveness of the audit process. The Committee intends the Company to continue to comply fully with the FRC Audit Committees Guidance regarding the frequency of audit tender. Under the standard rotation process, a new audit engagement partner was appointed from 2014.

The Committee has noted that there are no contractual obligations to restrict the choice of external auditor and has considered the likelihood of a withdrawal of the auditor from the market. The Committee meets with the Company's auditor at least twice a year. The Chief Executive Officer and Chief Financial Officer, and other relevant managers as required, attend by invitation, except for a period of each meeting where the Committee members may meet with the auditor without any member of the Group management present.

The Committee is required to assess the qualifications, expertise, resources, and independence of the external auditor, and the objectivity and effectiveness of the audit process. The Committee reviews the type of work, effectiveness of, and level of fees charged by the auditor on an annual basis and recommends to the Board the appointment, reappointment, term, remuneration, and terms of engagement of the external auditor. Auditor objectivity and independence is safeguarded by the committee monitoring fees paid to the auditor in respect of both audit and non-audit work, and approving all additional work performed by the external auditor. Non-audit services include remuneration services, tax and audit advisory.

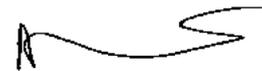
In July the Committee adopted an updated policy in relation to the provision of non-audit services by the external auditor. As set out in the Policy, it is the policy of the Group not to engage the Statutory auditor in any non-audit related services. This includes tax services. Specifically, the Policy states that the preparation of tax forms, payroll tax, calculation of indirect tax and the provision of tax advice cannot be provided by the Statutory auditor. Prior to the adoption of this policy, Deloitte LLP the Statutory auditor were responsible for the preparation of tax returns, PAYE returns, VAT returns and the provision of tax advice for the Group's two Swedish subsidiary companies. As a result of this policy, it was decided that Deloitte LLP can no longer provide these services.

Note 7 to the Consolidated financial statements includes disclosures of the auditor's remuneration for the year.

The Committee, taking into consideration relevant UK professional and regulatory requirements, regularly considers the independence and objectivity of the auditor. The Committee receives an annual statement from the auditor detailing their independence policies and safeguards, and confirming their independence, taking into account relevant ethical guidance regarding the provision of non-audit services by the external auditor.

The Committee considers the effectiveness of the external audit and the Group's relationship with the external auditor, Deloitte LLP, on an ongoing basis, and have conducted a review of the effectiveness of the annual audit. This review consisted of considering a number of key points together with the senior financial management of the Group, without the external auditor present, and then discussing the evaluation with the auditor. The Committee was able to conclude, on the basis of this exercise and its experience over the year, that the external audit process remained effective.

A further review will be carried out following the completion of audit procedures on all Group companies and reported on in next year's Annual Report.



Andrew Herbert
Chairman of the Audit Committee