

# Audit Committee Report



## Chairman's Introduction to the Audit Committee Report

I am pleased to report on the activities of the Committee for the year ended 28 February 2019.

This report sets out the Committee's findings and recommendations, including those in relation to the areas highlighted in the Code, particularly in:

- Monitoring the integrity of the financial statements and reviewing judgements relating thereto;
- Reviewing the adequacy and effectiveness of internal financial controls, of internal audit and of internal control and risk management systems;
- Safeguarding the objectivity and independence of the external audit and monitoring its effectiveness; and
- Recommending appointment of the external auditor and determining their remuneration.

I will be available to shareholders at the forthcoming AGM to answer any questions relating to the role of the Committee.

On behalf of the Board.

### Emer Finnan

Chairman of the Audit Committee  
22 May 2019

## Role and Responsibilities of the Committee

The Committee supports the Board in fulfilling its responsibilities in relation to financial reporting, monitoring the integrity of the financial statements and other announcements of financial results published by the Group; and reviewing and challenging any significant financial reporting issues, judgements and actions of management in relation to the financial statements. The Committee reviews the effectiveness of the Group's internal financial control and internal control and risk management systems and the effectiveness of the Group's Internal Audit function. On behalf of the Board, the Committee manages the appointment and remuneration of the External Auditor and monitors its performance and independence. The Group supports an independent and confidential whistleblowing procedure and the Committee monitors the operation of this facility.

In accordance with the Code, the Board requested that the Committee advise it whether it believes the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Committee's Terms of Reference reflect this requirement and can be found in the Investor Centre section of the Group's website. A copy may be obtained from the Company Secretary.

## Membership and Meeting Attendance

The following non-executive Directors served on the Committee during the year:

Member	Member Since	Number of Meetings Attended	Maximum Possible Meetings	% of Meetings Attended
Emer Finnan (Chairman)	2 July 2014	5	5	100
Geoffrey Hemphill	13 December 2017	5	5	100
Vincent Crowley	22 March 2016	5	5	100

All members of the Committee are, and were considered by the Board to be throughout the year under review, independent.

The Committee members have been selected to provide the wide range of financial and commercial expertise necessary to fulfil the Committee's duties and responsibilities. As a qualified chartered accountant, I am considered by the Board to have recent and relevant financial experience, as required by the Code. The Committee is considered by the Board as a whole to have competence relevant to the sector in which the Group operates. Details of the skills and experience of the Directors are contained in the Directors' biographies on pages 50 and 51 of the Annual Report and Accounts.

The Committee has access to the Group's finance team, to its Internal Audit function and to its External Auditor and can seek further professional training and advice, at the Group's cost, as appropriate.

The quorum necessary for the transaction of business by the Committee is two, each of whom must be a non-executive Director. Only members of the Committee have the right to attend Committee meetings, however, during the year, Sir Brian Stewart, as a non-executive Director (and in his capacity as Chairman until 5 July 2018), Stewart Gilliland, as a non-executive Director (and in his capacity as Chairman from 5 July 2018), Stephen Glancey, Group Chief Executive Officer, Jonathan Solesbury, Group Chief Financial Officer, Richard Holroyd and Jim Clerkin, non-executive Directors, the Head of Internal Audit, Group Finance Director, Group Strategy and Finance Director and representatives from Ernst & Young ("EY"), the External Auditor, were invited to attend meetings. The Committee also meets separately with the Head of Internal Audit and the External Auditor without management being present.

The Company Secretary is Secretary to the Committee.

# Audit Committee Report

## (continued)

### Meeting Frequency and Main Activities in the Year

The Committee met on five scheduled occasions during the year ended 28 February 2019. In addition there was one meeting by conference call to review a trading statement for recommendation to the Board. All members of the Committee attended every meeting.

During the year ended 28 February 2019, the Committee reviewed and made recommendations to the Board on the Preliminary Results Announcement for the period to 28 February 2018, the 2018 Annual Report and Accounts, the Interim Results Announcement for the period to 31 August 2018, and the trading update for the four months to 31 December 2018.

Since 28 February 2019, the Committee has met twice to review and make recommendations to the Board on the pre-close trading update for the period to 28 February 2019, the Preliminary Results Announcement for the period to 28 February 2019, the 2019 Annual Report and Accounts and updating the Committee's Terms of Reference.

In carrying out its reviews during the year, the Committee considered:

- whether the Group had applied appropriate accounting policies and practices both on a year on year basis and across the Group;
- the significant areas in which judgement had been applied in preparation of the financial statements in accordance with the accounting policies set out on pages 93 to 105 of the Annual Report and Accounts;
- the paper prepared to support the going concern and viability statement referred to on page 17 of the Annual Report and Accounts;
- reports from the Group Chief Financial Officer and the External Auditor;
- the clarity and completeness of disclosures and compliance with relevant financial reporting standards and corporate governance and regulatory requirements; and
- whether the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable and provided the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The Committee also:

- approved the Internal Audit and agrees the External Auditor's work plans for the Group;
- considered regular reports from the Head of Internal Audit on their findings;
- recommended revisions to the Board to the Committee's Terms of Reference; and
- reviewed the External Auditor's independence and objectivity, the effectiveness of the audit process, the re-appointment of the External Auditor and approved the External Auditor's remuneration.

### Significant Judgemental Areas

The significant areas of judgement considered by the Committee in relation to the accounts for the year ended 28 February 2019 and how these were addressed are outlined below. Each of these areas received particular focus from the External Auditor, who provided detailed analysis and assessment of the matters in their report to the Committee.

#### Acquisitions

The acquisition of Matthew Clark & Bibendum ("MCB") was completed on 4 April 2018 and MCB was then consolidated in the Group's results from that date. We are required to fair value MCB's assets and liabilities at the date of consolidation. There is an exercise of judgement involved in identifying and valuing the assets acquired in such a business combination. In that regard, the Committee examined the methodology and outcomes of external valuations and confirmed that they were independent of the Group. The Committee assessed the processes used in the identification and valuation of acquired assets and liabilities, including the reasonableness of assumptions used. The Committee also assessed the allocation of consideration between goodwill and identified intangible assets. Following this review, we were satisfied that the judgements exercised were appropriate.

The control environment of MCB was also a point of consideration for the Committee, given the circumstances leading to the collapse of the former company and the subsequent acquisition, together with the Group's initial assessment of the control environment. The Committee is satisfied that significant progress was achieved since acquisition in this area. The Committee has regularly reviewed management progress on the status and activities in this regard, and have reviewed the external auditors' year-end report.

Finalisation of the Group's accounting for the December 2017 joint venture arrangement for Admiral Taverns was concluded during the current financial year. The final determination of the Group's share of assets acquired resulted, in line with IFRS 3 *Business Combinations*, in a measurement period adjustment being reflected in the prior year to reflect the Group's total share of assets acquired on investment. This resulted in the recognition of negative goodwill which was recognised as an exceptional credit in the prior year numbers. The Committee assessed the process used in the finalisation of the acquired assets and liabilities and are satisfied that the accounting treatment is appropriate.

#### Valuation of property, plant and equipment

The Group values its land and buildings and plant and machinery at market value/depreciated replacement cost (DCR) and consequently carries out an annual valuation. The Group engages external valuers to value the Group's property, plant and machinery at a minimum every three years or as at the date of acquisition for assets acquired as part of a business combination. The Group completed an external valuation in the prior financial year for its Irish and UK assets. An internal assessment was completed for all assets in the current financial year.

In assessing the reasonableness of the internal valuations, the Committee reviewed the key assumptions and judgements underlying the valuations, in particular, focus was given to the impact of changes in the forecasted utilisation levels across the Group's production sites and changes in the property market in the relevant geographies. The Committee is satisfied that the carrying values are appropriate.

#### Goodwill and intangible assets impairment testing

The Committee considered the carrying value of goodwill and intangible assets as at the year end date to assess whether or not it exceeded the expected recoverable amounts for these assets. In particular, the Committee considered the value-in-use financial models, including sensitivity analysis, used to support the valuation and the key assumptions and judgements used by management underlying these models. The key assumptions used in the financial models and consequently the key focus areas for the Committee relate to future volume, net revenue and operating profit, the growth rate in perpetuity and the discount rate applied to the resulting cash flows. The Committee considered the outcome of the financial models and found the methodology to be robust, and in all instances concluded that the outcome was appropriate.

#### Revenue recognition

The Committee considered the Group's revenue recognition in light of its adoption of IFRS 15 *Revenue from Contracts with Customers*. The Committee in particular examined the accounting treatment for revenue recognition for an element of the Group's contract brewing and bottling arrangements. While not material, the Committee deemed, that under the new guidance in IFRS 15 *Revenue from Contracts with Customers*, where the Group produces products for customers that have no alternative use and for which there is an enforceable right to payment for performance completed to date, the Group is required to recognise the revenue over time as contractual performance obligations are satisfied.

Following discussions with the External Auditor, and the deliberations set out above, we were satisfied that the financial statements dealt appropriately with each of the areas of significant judgement.

The External Auditor also reported to the Committee on any misstatements that they had found in the course of their work. The Committee noted their work and were satisfied that no material amounts required adjustment.

#### Fair, Balanced and Understandable Assessment

One of the key compliance requirements of a group's financial statements is for the Annual Report and Accounts to be fair, balanced and understandable. The coordination and review of Group wide contributions into the Annual Report and Accounts follows a well established and documented process, which is performed in parallel with the formal process undertaken by the External Auditor.

The Committee received a summary of the approach taken by management in the preparation of the 2019 Annual Report and Accounts to ensure that it met the requirements of the Code. This, and our own scrutiny of the document, enabled the Committee, and then the Board, to confirm that the 2019 Annual Report and Accounts taken as a whole, was fair, balanced and understandable and provided the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

#### Internal Controls and Risk Management Systems

The Committee is responsible, on behalf of the Board, for reviewing the effectiveness of the Group's internal controls and risk management systems, including financial, operational and compliance controls.

In order to keep the Committee abreast with latest developments, the Head of Internal Audit reported to each meeting on developments and emerging risks to internal control systems and on the evolution of major risks. In addition, the Committee reviewed reports issued by both Internal Audit and the External Auditor and held regular discussions with the Group Chief Financial Officer, the Head of Internal Audit and representatives of the External Auditor. During the course of these reviews, the Committee has not identified nor been advised of any failings or weaknesses which it has determined to be significant.

#### Internal Audit

The Committee is responsible for monitoring and reviewing the operation and effectiveness of the Internal Audit function including its focus, work plan, activities and resources.

At the beginning of the financial year, the Committee reviewed and approved the Internal Audit plan for the year having considered the principal areas of risk in the business and the adequacy of staffing levels and expertise within the function. During the year, the Committee received regular verbal and written reports from the Head of Internal Audit summarising findings from the work of Internal Audit and the responses from management to deal with the findings.

The Committee monitors progress on the implementation of any action plans arising on significant findings to ensure these are completed satisfactorily and meets with the Head of Internal Audit in the absence of management.

#### External Audit

It is the responsibility of the Committee to monitor the performance, objectivity and independence of EY, the External Auditor. In December 2018, we met with EY to agree the audit plan for the year end, highlighting the key financial statement and audit risks, to ensure that the audit was appropriately focused. In addition, EY's letter of engagement and independence was reviewed by the Committee in advance of the audit.

# Audit Committee Report

## (continued)

In May 2019, in advance of the finalisation of the financial statements, we received a report from EY on their key audit findings, which included the key areas of risk and significant judgements referred to above, and discussed the issues with them in order for the Committee to form a judgement on the financial statements. In addition, we considered the Letter of Representation that the External Auditor requires from the Board.

The Committee meets with the External Auditor privately at least once a year to discuss any matters they may wish to raise without management being present.

### Assessment of Effectiveness of External Audit

The Committee obtained feedback on the effectiveness and efficiency of the external audit process from completion of a short questionnaire by each member of the Committee, the Group Chief Financial Officer, the Director of Group Finance, the Group Strategy and Finance Director and applicable senior finance executives across the business. The results were reviewed by the Committee and the Committee concluded that the external audit process had been effective, with areas identified for improvement communicated to EY for action.

### Audit Tender

The current External Auditor was first appointed for the year ended 28 February 2018 and the external audit had not been tendered since then.

There are no contractual obligations restricting the Company's choice of External Auditor. The Committee will continue to review the auditor appointment and the need to tender the audit, ensuring the Group's compliance with the Code and any related regulations.

### Non-Audit Services

The Group has a policy in place governing the provision of non-audit services by the External Auditor in order to ensure that the External Auditor's objectivity and independence is safeguarded.

Under this policy the auditor is prohibited from providing non-audit services if the auditor:

- may, as a result, be required to audit its own firm's work;
- would participate in activities that would normally be undertaken by management;
- would be remunerated through a "success fee" structure or have some other mutual financial interest with the Group; and
- would be acting in an advocacy role for the Group.

Other than above, the Company does not impose an automatic ban on the External Auditor providing non-audit services. However, the External Auditor is only permitted to provide non-audit services that are not, or are not perceived to be, in conflict with auditor independence and objectivity, if it has the skill, competence and

integrity to carry out the work and it is considered by the Audit Committee to be the most appropriate to undertake such work in the best interests of the Group. The engagement of the External Auditor to provide non-audit services must be approved in advance by the Audit Committee or entered into pursuant to pre-approved policies and procedures established by the Audit Committee and approved by the Board.

The nature, extent and scope of non-audit services provided to the Group by the External Auditor and the economic importance of the Group to the External Auditor are also monitored to ensure that the external auditor's independence and objectivity is not impaired. The Audit Committee has adopted a policy that, except in exceptional circumstances with the prior approval of the Audit Committee, non-audit fees paid to the Group's auditor should not exceed 100% of audit fees in any one financial year.

Details of the amounts paid to Ernst & Young during the year for audit and other services are set out in note 2 to the financial statements.

### Whistleblowing Programme

The Group has a whistleblowing programme in all of its operations whereby employees can, in confidence, report on matters where they feel a malpractice has taken or is taking place, or if health and safety standards have been or are being compromised. Additional areas that are addressed by this procedure include criminal activities, improper or unethical behaviour and risks to the environment.

The programme allows employees to raise their concerns with their line manager or, if that is inappropriate, to raise them on a confidential basis. An externally facilitated confidential helpline and confidential email facility are provided to protect the identity of employees in these circumstances. Any concerns are investigated on a confidential basis by the Human Resources Department and/or the Company Secretary and feedback is given to the person making the complaint as appropriate via the confidential email facility. An official written record is kept of each stage of the procedure and results are summarised for the Committee.

The Audit Committee is also responsible for ensuring that arrangements are in place for the proportionate independent investigation and appropriate follow up of any concerns which might be raised. In FY2019, no incidences of concern were uncovered.

### Committee Effectiveness

The effectiveness of the Committee is reviewed on an annual basis by both the Board and the Committee itself and results are summarised for the Committee. Following this year's annual review it was concluded the Committee was operating effectively.

This report was approved by the Board of Directors on 22 May 2019.

**Emer Finnan**

Chairman of the Audit Committee