

Audit Committee Report

Keeping pace with business expansion



Membership and attendance

The Committee met for five scheduled meetings during the year with attendance disclosed below. Additional meetings were scheduled for the purposes of working on the audit tender process.

Committee members	Member since	Attendance
Jonathan Davis (Chair) ¹	23 June 2023	1/1
Nigel Lingwood ²	30 April 2020	4/4
Margaret Amos	10 March 2022	5/5
Amanda Mellor	19 March 2018	5/5
Claire Tiney	3 August 2016	5/5

1. Jonathan Davis joined the Board and was appointed as Chair of the Committee on 23 June 2023. There was only one Committee meeting between that date and the year end, and so Jonathan attended the maximum number of meetings possible.

2. Nigel Lingwood stepped down from the Committee on 23 June 2023, having chaired the Committee since his appointment to the Board on 30 April 2020. There were four Committee meetings between 1 August 2022 and that date, and Nigel attended all four meetings.

Highlights of 2023

- Concluded an audit tender process resulting in the appointment of PwC as External Auditor of the Company, subject to shareholder approval, and oversaw adviser transitions to ensure independence requirements have been met.
- Supported the transition to an in-house Internal Audit function.
- Maintained focus on control environment and reporting processes in businesses across the Group, including in particular newly acquired businesses, keeping pace with our expansion.
- Continued to monitor Group risk environment and internal controls with enhanced process to identify, assess and monitor emerging risks in current macroeconomic and political environment.
- In-depth presentation from the UK Finance Director providing key insights into activities, controls, processes and priorities in the UK finance function.

Priorities for 2024

- Oversee and support the External Auditor transition.
- Ensure the successful embedding of the new in-house Internal Audit function.
- Review the accounting for the recently completed acquisitions in France and Slovenia.
- Continue to monitor developments in the regulatory landscape and prepare for implementation of new regulations and standards, including in relation to the implementation of an assurance policy and the assurance requirements in the context of sustainability data.

Audit Committee Report continued

Dear shareholder,

I am pleased to present this report, which is my first as Chair of the Audit Committee (the "Committee"), for the year ended 31 July 2023.

This report is intended to provide shareholders with an insight into key areas considered by the Audit Committee in the year, together with how the Committee has discharged its responsibilities and provided assurance on the integrity of the Company's financial statements and reporting, its internal control and risk management processes, its audit and risk activities, and business conduct and integrity.

Specific tasks this year have included the undertaking of an external audit tender process, which resulted in the appointment of PricewaterhouseCoopers LLP (PwC"), subject to approval by the shareholders at the 2023 AGM, for the financial year commencing 1 August 2023.

The process was informative and thorough, involving input from a wide range of internal stakeholders, including from the international businesses, and we look forward to focusing on the transition to the new Audit team in the coming year. You can read more about the tender process on page 136.

During this financial year, the Audit Committee also supported the transfer of the Internal Audit function to an in-house role, with the aim of improving the consistency of internal audit reporting and the controls environment, and to assist in the identification and communication of good practice across the Group.

As a result, a new Head of Internal Audit, with extensive international risk management and manufacturing, joined the Group in April 2023, to develop and deliver the internal audit programme for the 2024 financial year. As part of a comprehensive induction, the Head of Audit undertook a number of joint reviews with BDO during the 2023 financial year. To support the work of the Head of Internal Audit, BDO will continue as a co-source partner, assisting on specialist or ad-hoc projects across the Group going forward. More details may be found on page 138.

In addition to these specific tasks, the Committee has continued to focus on its fundamental priorities, which include ensuring the quality and effectiveness of the external and internal audit processes and monitoring the management of the principal risks of the business.

I am pleased that the internal audit reports received this year from BDO confirm that the Group's businesses continue to maintain a strong focus on internal controls and compliance with emerging regulatory requirements. The Committee will continue to devote time to the monitoring of controls across the Group; an area of key importance as we continue to grow both in size and complexity.

As part of our regular cycle of work we have again reviewed in depth the company's principal and emerging risks, the approach to risk appetite and the risk management process, led by the Group Risk Management Steering Committee. More information on the Committee's work in these areas may be found on page 138.

In March 2023, the Corporate Reporting Review team, FRC Supervision, corresponded with the Company regarding its review of the Company's Annual Report for the year ended 31 July 2022 and, as part of the review, sought information in respect of some aspects of the Annual Report, and provided a number of observations and potential improvements to existing disclosures. I am pleased to report that all queries were answered satisfactorily, and the feedback of the review team has been incorporated as appropriate into this Annual Report. More details may be found on page 138.

Looking to the year ahead, as a Committee, we will also continue to focus on the potential future regulatory changes and emerging best practice, including in respect of the development of an assurance policy and the increasing focus on assurance around sustainability reporting.

In my short time on the Board and as Chair of the Committee, it has been a pleasure to start to work with my fellow Committee members. I am also grateful to the very dedicated finance teams across the organisation, including within our newly acquired companies, and I look forward to working with them again in 2024 and beyond.

On behalf of the Committee, I would like to thank the lead partner, Jon Killingley, and the team at outgoing External Auditor Ernst & Young LLP ("EY") for the significant contribution during their time as auditor of the Company.

In addition, I would like to thank the Internal Audit team at BDO for their valuable insights over the years, having supported the Company as Internal Auditor since the IPO in 2014.

Lastly, I would like to thank Nigel Lingwood who, prior to his succession into the role of Chair of the Board, chaired the Audit Committee since his appointment in 2020, providing an immensely valuable contribution during this time.

Jonathan Davis
Chair of the Audit Committee
4 October 2023

Role and responsibilities

The primary function of the Committee is to assist the Board in fulfilling its responsibilities with regard to the integrity of financial reporting, audit, risk management and internal controls. This comprises:

- monitoring and reviewing the Group's accounting policies, practices and significant accounting judgements;
- reviewing the annual and half-yearly financial statements, trading statements and any other financial announcements;
- reporting to the Board on whether the Annual Report and Accounts is fair, balanced and understandable;
- reviewing the Board's shorter-term cash flow forecasts and its method for assessing the Group's long-term viability;
- approving the appointment and recommending the re-appointment of the External Auditor and its terms of engagement and fees;
- reviewing the scope of work to be undertaken by the External Auditor and reviewing the results of that work;
- monitoring and reviewing the effectiveness of the external audit process and the External Auditor;
- reviewing and monitoring the independence of the External Auditor and approving its provision of non-audit services;
- monitoring and reviewing the adequacy and effectiveness of the risk

management systems and processes and, where appropriate, making recommendations to the Board on areas for improvement;

- monitoring and reviewing the effectiveness of the Group's Internal Audit function, and resolution of its material findings, in the context of the Group's overall risk management systems;
- reviewing reports from the Chief Financial Officer on the controls to mitigate fraud risk; and
- overseeing the Group's procedures for its employees to raise concerns through its Whistleblowing Policy as set out in the Code of Conduct.

Membership and attendance

In compliance with the Code, the Committee comprises four members who are independent Non-Executive Directors. Jonathan Davis is Committee Chair, and Margaret Amos, Amanda Mellor and Claire Tiney are Committee members. Nigel Lingwood stepped down as Chair and as a member of the Committee on 23 June 2023 on the commencement of his role as Chair of the Board. Jonathan Davis was appointed as a Non-Executive Director and Chair of the Audit Committee on 23 June 2023.

Financial expert, recent and relevant financial experience

The Board has satisfied itself that the membership of the Audit Committee includes at least one Director with recent and relevant financial experience and

has competence in the sector in which the Company operates, and that all members are financially literate and have experience of corporate financial matters. For the purposes of the Code, the Board has determined that Jonathan Davis is independent and may be regarded as an Audit Committee financial expert, having recent and relevant financial experience, and that all members of the Audit Committee are independent Non-Executive Directors with relevant financial and sectoral competence. See pages 110 to 111 for details of relevant experience of Directors.

Committee meetings are also normally attended by the Chair, the Chief Executive Officer, the Chief Financial Officer and the Company Secretary, who acts as secretary to the Committee. The External and Internal Auditors also attend meetings when appropriate. Other members of Management may be invited to attend depending on the matters under discussion. The Committee meets regularly with the External Auditor and Internal Auditor with no members of Management present. Meetings are scheduled in accordance with the financial and reporting cycles of the Company and generally take place prior to Board meetings to ensure effective collaboration with the Board. Minutes of each Committee meeting are provided to Board members.



Audit Committee Report continued

The Committee also has independent access to the Internal Auditor and the External Auditor. The Internal Auditor and the External Auditor have access to the Chair of the Committee outside formal Committee meetings.

The Committee met for five scheduled meetings during the year with attendance disclosed on page 131. Additional meetings were scheduled for the purposes of working on the audit tender process.

Audit Committee activities during the year

During the year, the Committee dealt with the following matters:

Financial statements and reports

- Reviewed the Annual Report and Accounts, together with the full year results announcement and the half-year results announcement, and received reports from the External Auditor on the above; the Committee also reviewed the trading updates.
- Assessed the impact of climate change on accounting assumptions and disclosure, including the reporting requirements of the Task-Force on Climate-Related Financial Disclosures.
- Reviewed the effectiveness of the Group's internal controls and disclosures made in the Annual Report and Accounts.
- Reviewed executive management's representation letter to the auditor, going concern reviews, fair, balanced and understandable criteria and significant areas of accounting estimates and judgement.
- Reviewed the Group's cash flow forecasts, the Group's bank facilities and the Viability Statement.
- Liaised with Corporate Reporting Review team, FRC Supervision, regarding their review of the 2022 Annual Report and Accounts.

Risk management

- Monitored and reviewed the effectiveness of risk management and internal control processes.
- Reviewed the Group Risk Register, which identifies, evaluates and sets out mitigation of risks, and reviewed the principal risks and uncertainties disclosed in the Annual Report and Accounts.

Internal audit

- Reviewed reports from BDO as Group Internal Auditor and reviewed its summary report on internal audits completed in 2022 and its internal audit plan for 2023.
- Maintained oversight of the process to transition to an in-house Internal Audit function, a role that became effective on 1 August 2023.

External Auditor and non-audit work

- Reviewed the relationship with the External Auditor including its independence, objectivity and effectiveness and recommended to the Board its re-appointment at the 2022 Annual General Meeting.
- Conducted a tender process for the role of External Auditor for the year commencing 1 August 2023.
- Reviewed, considered and agreed the scope of the audit work to be undertaken by the External Auditor on this year's Annual Report.
- Agreed the terms of engagement and fees to be paid to the External Auditor.
- Reviewed and approved the Group policy on non-audit services and reviewed any non-audit fees.
- Reviewed and discussed the FRC's July 2023 audit quality inspection report in respect of EY.

Governance

- Reviewed and approved the Group's Tax Strategy; reviewed a paper on the Group's tax risks, controls and processes operating over all businesses in the Group.
- Monitored the Group's Code of Conduct, Anti-Bribery and Corruption Policy and Policy on Corporate Criminal Offences; reviewed the Group's whistleblowing arrangements.
- Met with the External Auditor and the Internal Auditor without Management being present
- Completed an evaluation of the Committee performance and set its annual work programme.

Significant accounting matters

The Committee, together with the auditor, identified the matters set out below as being significant in the context of the consolidated financial statements for the year ended 31 July 2023. These were discussed and reviewed with Management and the External Auditor; the Committee challenged judgements and sought clarification where necessary. The Committee received a report from the External Auditor on the work it had performed to arrive at its conclusions and discussed in detail all material findings contained within the report.

Area of focus	Why was this significant?	How did the Committee address this area?
<p>Impairment of goodwill and other intangible assets</p>	<p>The Group's policies on accounting for separately acquired intangible assets and goodwill on acquired businesses are set out in notes 12 and 14 to the consolidated financial statements. At 31 July 2023 intangible assets relating to goodwill and other intangible assets amounted to £248.7 million. The acquisitions made during the year added £29.3 million of goodwill and other intangible assets through acquisition. Goodwill on acquisitions is initially recorded at fair value, and is subject to testing for impairment at each balance sheet date. For intangible assets amortised over finite lives, the Group is required to determine whether indicators of impairment exist and, if so, perform a full impairment review. As is customary, such testing involves estimation of the future cash flows attributable to the asset, or cash generating unit of which it is part, and discounting these future cash flows to today's value.</p>	<p>The Committee has reviewed the key assumptions behind these valuations and impairment reviews, notably the expected development of future cash flows and the discount rates used, as well as considering reasonable sensitivities to these estimates, and concluded that these support the carrying values set out in notes 12 and 14 to the consolidated financial statements and no impairment provision is required.</p> <p>The Committee considered the impact of climate change over the medium and long time period of our climate change assessment (aligned to our impairment review), and considered it reasonable to expect no material adverse impact of climate change to our business model that would materially impact the cash flows used in our impairment reviews.</p> <p>The Committee has also reviewed the additions to goodwill and other intangible assets through the acquisitions of VMI and i-Vent in the year, the allocation of goodwill and other intangible assets to the appropriate cash generating units (CGUs), and the level of CGUs at which the impairment testing is completed. The Committee considered these allocations and judgements to be reasonable.</p> <p>As disclosed in note 1 to the accounts (Critical accounting judgements and key sources of estimation uncertainty), the Committee concluded that the judgement in identifying the Group's cash generating units (CGUs) and the grouping of those CGUs for goodwill impairment testing purposes could have a significant impact on the carrying value of goodwill and other intangible assets in the financial statements. Hence, the Committee concluded that this is a critical accounting judgment that falls under the scope of paragraph 122 of IAS1.</p> <p>However, the Committee did not consider it reasonably possible that changes in the key estimates and assumptions could cause the carrying value of the CGUs to materially exceed their recoverable value. Hence the Group did not consider that this was a major source of estimation uncertainty that could have a significant risk of resulting in a material adjustment to the financial statements, thus is not disclosed as such in note 1 to the accounts, but is included as an additional disclosure.</p>
<p>Revenue recognition – liabilities arising from retrospective volume rebates</p>	<p>The Group has a number of customer rebate agreements that are considered to be variable consideration and are recognised as a reduction from sales. Rebates are based on an agreed percentage of revenue, which will increase with the level of revenue achieved. These agreements may run to a different reporting period to that of the Group with some of the amounts payable being subject to confirmation after the reporting date. At the reporting date, Management makes estimates of the amount of rebate that will become payable by the Group under these agreements using a probability weighted average to arrive at an expected amount. At the reporting date, Management makes estimates of the amount of rebate that will become payable by the Group under these agreements using a probability weighted average to arrive at an expected amount. The liability arising from retrospective volume rebates at 31 July 2023 included within trade and other payables is £9.8 million (2022: £10.3 million).</p>	<p>The Committee reviewed a paper from Management setting out the process for estimating the amount of rebates to be recognised and considered the operating effectiveness of controls surrounding revenue recognition and Management's subjective assessment and recognition of rebates at the year end. The Committee reviewed Management's methodology and judgement in assessing the recognition of rebates. The Committee concurred with its approach.</p> <p>The Group did not consider it reasonably possible, at the balance sheet date, that this was a major source of estimation uncertainty that could have a significant risk of resulting in a material adjustment to the liabilities recorded and thus is not disclosed as such in note 1 to the accounts as a key source of estimation uncertainty, but is included as an additional disclosure.</p>

Audit Committee Report continued

Significant accounting matters continued

<p>Accounting for business combinations</p>	<p>There were two business combinations during the year: the acquisitions of VMI and I-Vent. The acquisitions were relatively straight forward and included 100% purchase of shares.</p> <p>Both of these acquisitions include future consideration contingent on the performance of the businesses. The acquisitions of ERI in 2022 and ClimaRad in 2021 also include contingent consideration liabilities at the balance sheet date.</p>	<p>The Committee reviewed the accounting for the acquisitions and the application of the relevant accounting standards and agreed that it was appropriate. The Committee also reviewed the judgements that Management made in assessing the fair value measurement of the contingent consideration for the VMI and I-Vent acquisitions and for the previous acquisitions of ERI and ClimaRad, and agreed the judgements were reasonable.</p> <p>The Group did not consider it reasonably possible, at the balance sheet date, that this was a major source of estimation uncertainty that could have a significant risk of resulting in a material adjustment to the liabilities recorded and thus is not disclosed as such in note 1 to the accounts as a key source of estimation uncertainty, but is included as an additional disclosure.</p>
<p>Going concern</p>	<p>The Board of Directors has a responsibility to assess whether there are any significant doubts about an entity's ability to continue as a going concern. The Group has completed a comprehensive and robust assessment in order to support the preparation of the financial statements on the going concern basis. Such testing involves a number of assumptions regarding the future financial performance of the Group for 18 months from the balance sheet date.</p>	<p>The Committee has reviewed the key assumptions used in the going concern assessment and the other relevant factors surrounding going concern, notably the expected liquidity levels of the Group and covenant headroom.</p> <p>The Committee has also considered reasonable sensitivities to these estimates including the potential impact from the the principal risks and concluded that these support the preparation of the financial statements on the going concern basis.</p> <p>The Committee considered the impact of climate change (not a standalone principal risk) over the short time period of our climate change assessment (aligned to our going concern review), and considered it reasonable to expect no material adverse impact of climate change over the going concern period, and hence considered it reasonable that no adverse impacts in either the base case or downside scenarios were included.</p> <p>Further details of the going concern assessment prepared by the Group is included on page 99.</p>

In addition, the Committee reviewed policy and provisions with respect to: treasury, taxation, warranty, doubtful debts and inventory and weighted average cost of capital rates.

External audit

EY has acted as External Auditor for the Group since Volution was listed in June 2014. The lead partner for the financial year ended 31 July 2023 and the prior year was Jon Killingley. Other than this role, he has not had any previous involvement with the Group.

The Committee notes the tendering and rotation provisions in the EU Audit Directive and Regulation and the Companies Act 2006, which state that there should be a public tender every ten years and a change of External Auditor at least every 20 years. The Committee also confirms compliance with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the Order).

In line with these requirements, the Committee has this year conducted a tender process for the appointment of the External Auditor for the year ending 31 July 2024.

The tender process was concluded in January 2023, and more details are set out opposite.

Audit tender

The Audit Committee initiated and supervised a competitive tender process for the Group's External Auditor during the financial year. It was concluded in January 2023.

As part of the planning, the Committee agreed a timetable with Management, appointed a Selection Panel, and agreed minimum requirements. A set of selection criteria was then prepared, taking into account FRC guidance and those criteria most relevant to the Group. The Audit Committee defined the primary objective of the tender process as to appoint the audit firm that would provide the highest quality, most effective, and efficient audit of the Group.

During 2022, the Audit Committee Chair, with the advice and support of the CFO, engaged with all the "Big 4" firms, and at least one challenger firm, to understand their appetite to tender. Three firms declined to participate. A formal RFP document was then issued to two firms, which included details of the selection criteria. Two firms completed the full process, including the incumbent auditor.

To ensure a level playing field, comprehensive information was provided in an electronic data room, and each of the participating firms were invited to meetings with the Chair of the Board, the Chair of the Audit committee, and members of senior management, and also to visit a selection of the Group businesses.

Both firms submitted comprehensive tender documents, including lead partners' and prospective audit teams' CVs, for consideration, and each firm gave a formal in-person presentation to the Audit Committee, where the Committee had the opportunity to ask questions and discuss the tender documentation in detail. These Presentations were also attended by and the Selection Panel, which included the Chair, the Chief Financial Officer, the Company Secretary, and members of the Finance function.

The evaluation process included each member of the Selection Panel scoring against the agreed selection criteria, and was supplemented with a review of FRC audit quality reports for each firm, discussion of the merits of the proposals, and the review of additional feedback from other senior management involved in the tender process. There were no contractual obligations that restricted the Company's choice of external audit firm.

The Audit committee reviewed a report on the audit tender and selection process and, after due consideration, recommended to the Board that their preferred choice was PwC. As announced on 1 February 2023, the Company intends to appoint PwC as its auditor for the year ending 31 July 2024, subject to shareholder approval at the AGM in December 2023. Since their appointment, work has been completed to ensure PwC are independent, and relevant transitional activities have commenced, ahead of PwC's expected formal appointment at the AGM.

No Committee members have any connection with either EY or PwC.

The Committee has recommended to the Board that a resolution to appoint PwC for the financial year ending 31 July 2024 be proposed to shareholders at the Annual General Meeting in December 2023 and the Board accepted and endorsed this recommendation.

Effectiveness review

During the year, the Committee assessed the effectiveness of EY and the external audit process for the year ended 31 July 2022 using a checklist and questionnaire issued to senior financial management across the Group who had been involved in the audit process.

A summary of the findings was prepared for consideration by the Committee and EY. There were no substantive matters identified during this assessment and the Committee concluded that the external audit process in had been effective.

The Committee has been provided with a copy of the Financial Reporting Council’s July 2023 audit quality inspection report in respect of EY and a copy of EY’s published audit quality and transparency reports for the UK. The Audit Quality Review team of the Financial Reporting Council (‘FRC’) considered certain aspects of EY’s audit of the Company’s 2022 consolidated financial statements. Having received a full copy of the report, the Committee was pleased to note that no key findings arose from the review, with only one area identified for limited improvement. This area has been discussed with EY and the Committee is satisfied that it was addressed appropriately.

Non-audit services

The Committee agrees the fees paid to the External Auditor for its services as auditor.

A formal policy in relation to the provision of non-audit services by the External Auditor was reviewed by the Committee during the year to ensure that there was adequate protection of its independence and objectivity. A copy of the policy is available at the Company’s website www.volutiongroupplc.com.

Following the Committee’s announcement on 1 February 2023 regarding the intended appointment of PwC as External Auditor, the decision was also taken in line with independence requirements to replace PwC as tax advisor to the Group. Management undertook a process, with oversight of the Committee, which resulted in the appointment of BDO as the Group’s tax advisor with effect from 1 June 2023.

During the year, EY charged the Group £99,000 (2022: £95,000) for non-audit services relating to the half-year review, which represents 11.9% (2022: 12.9%) of the average of the external audit fee over the last three financial years. A breakdown of the fees paid to EY during the year is set out in note 8 to the consolidated financial statements.

Internal control and risk management

The Board is responsible for the effectiveness of the Group’s system of internal control, which has been designed and implemented to meet the requirements of the Group and the risks to which it is exposed. Details are set out below on the Group’s internal control environment, how risk is managed, and the Committee’s review of the effectiveness of the risk management and internal control systems.

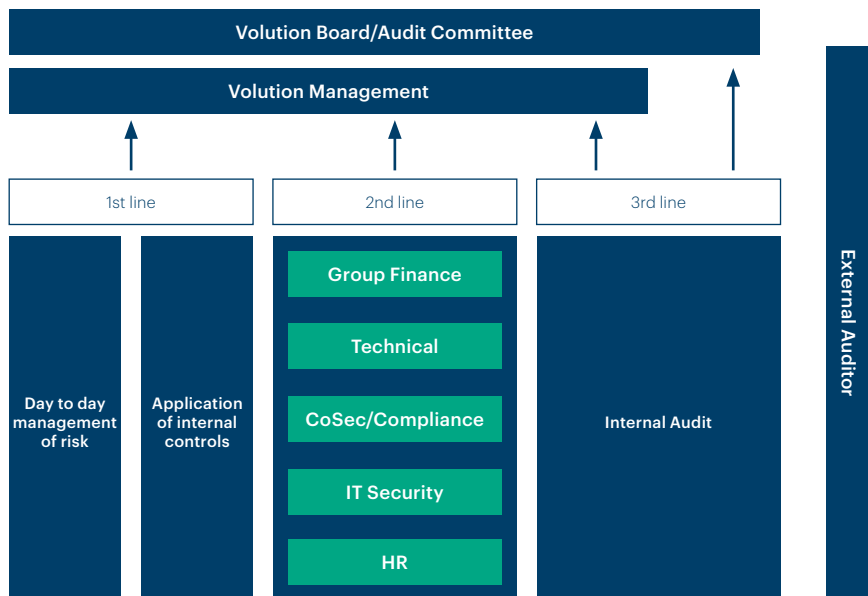
Internal control environment

In seeking to achieve the Group’s business objectives, we face a number of risks, as defined on pages 96 to 104. The following key elements comprise the internal control environment, which has been designed to identify, evaluate and manage these risks in line with our risk appetite, and to ensure accurate and timely reporting of financial data for the Company and the Group:

- an appropriate organisational structure with clear lines of responsibility, including adopting the three lines of defence model to effectively manage the risks;

- an experienced and qualified finance function, which regularly assesses the possible financial impact of the risks facing the Group;
- a comprehensive annual business planning process;
- key control procedures as defined in our Risk and Control matrix;
- delegation of authority devolved from the Board which sets the approval limits for capital and operating expenditure and other key business transactions and decisions;
- a robust financial control, budgeting and forecasting system, which includes regular monitoring, variance analysis, key performance indicator reviews and risk and opportunity assessments at Board level;
- procedures by which the consolidated financial statements are prepared, which are monitored and maintained through the use of internal control frameworks addressing key financial reporting risks arising from changes in the business or accounting standards;
- established policies and procedures setting out expected standards of integrity and ethical standards which reinforce the need for all employees to adhere to all legal and regulatory requirements; and
- an annual internal controls checklist.

Three lines of defence model



Audit Committee Report continued

Internal Audit

Internal Audit plays an important role in helping the organisation deliver its vision and objectives by providing independent and objective assurance to Management, the Committee and Board on the effectiveness of Volution's risk management activities, internal controls and corporate governance framework.

The purpose, scope and authority of Internal Audit is defined within its charter which is approved annually by the Committee.

For the financial period ended 31 July 2023, BDO continued to provide the internal audit service. The Audit Committee agreed the internal audit plan prior to the commencement of the financial year, which was designed to ensure that there was appropriate coverage of the internal control

environment, strategic priorities and key risks identified by the Board in its annual risk management process.

Regular updates on Internal Audit are provided to the Committee, covering an overview of the work undertaken in the update period, actions arising from audits conducted, the tracking of remedial actions, and progress against the Internal Audit Plan. Updates provided in the year included detailed reports on the segregation of duties and similar controls in our newly acquired businesses, and also on specific areas of cyber, fraud and other key risk areas.

The Committee routinely meets independently with the Internal Auditor, to discuss the results of the audits performed and any additional insights obtained on the risk management and control environment across the organisation.

management and internal control systems for the period from 1 August 2022 to the date of this report. Taking into account the matters set out on pages 96 to 104 relating to principal risks and uncertainties and the internal audit reports from BDO, the Board, with the advice of the Committee, is satisfied that the Group has in place effective risk management and internal control systems.

Corporate Reporting Review, FRC Supervision

Following their review of the Annual Report for the year ended 31 July 2022 in accordance with Part 2 of the FRC Corporate Reporting Review Operating Procedures, the Corporate Reporting Review team, FRC Supervision (CRR), wrote to the Company in March 2023 requesting certain information to understand how relevant reporting requirements had been met in relation to three areas: the acquisitions of ERI (Macedonia) and ClimaRad (Netherlands), disclosures on judgements and estimates, and carbon avoidance reporting. Information was duly provided and accepted as satisfactory by the CRR. Some reporting changes suggested as part of their review have been reflected as appropriate in this Annual Report. The FRC's role is to consider compliance with reporting standards and is not to verify the information provided to them. Therefore, given the scope and inherent limitations of their review, which does not benefit from any detailed knowledge of the Group, it would not be appropriate to infer any assurance from their review that our 2022 Annual Report and Accounts was correct in all material respects.

Code of Conduct, anti-bribery and whistleblowing

The Group is committed to providing a safe and confidential avenue for all employees across the Group to raise concerns about serious wrongdoings. The Group also acknowledges the requirements of the 2018 Code in this area, which states that the Committee should review arrangements by which employees across the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensure that these concerns are investigated and escalated as appropriate.

The Company has a Group-wide Code of Conduct, an Anti-Bribery and Corruption Policy and a Policy on Corporate Criminal

Transition to an in-house Internal Audit function

During this financial year, the Audit Committee supported the transition to an in-house Internal Audit function, effective from the start of the 2024 financial year. This development aimed to improve the consistency of reporting between the business units and to help to identify and disseminate good practice across the Group.

A new Head of Internal Audit was appointed to deliver the Internal Audit Programme, with BDO acting as a co-source partner. The Head of Internal Audit reports to the Committee and functionally to the Chief Financial Officer. Priorities for Internal Audit in the new financial year will include continuing to focus on the integration of the three new businesses recently acquired in France, Slovenia and New Zealand and ensuring alignment with Group's expected standards of internal control.

Risk management

The Board sets the risk appetite that forms the basis of the approach to risk management, accepting that some level of risk taking is necessary to meet business objectives. The Group has a risk management process which is led by the Group Risk Management Steering Committee. This process identifies risks and assesses the probability and impact from these risks, and assigns an owner to manage mitigation activities at the operational level. Each business unit operates a process to ensure that key risks are identified, evaluated, managed in line with our risk appetite, and reviewed appropriately. This process is also applied at Board level to major business decisions such as acquisitions. The business unit risk registers form the basis for the Group Risk Register, which is maintained for all corporate risks and is monitored by senior management and reviewed by the Committee. During the year, the Group Risk Register and the methodology applied were the subject of review by

senior management and updated to reflect new and developing areas which might impact business strategy. The Audit Committee reviews the Group Risk Register at least twice a year and assesses the actions being taken by senior management to monitor and mitigate the risks. The Group's principal risks and uncertainties, the areas which they impact and how they are mitigated are described on pages 96 to 104.

Review of effectiveness

Provision 29 of the 2018 Code states that the Board should monitor the Company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness. The Committee receives an annual report on the performance of the system of internal control, and on its effectiveness in managing risks and in identifying control failings or weaknesses. The Committee has reviewed the Group's risk management process and the effectiveness of the Group's risk

Offences. These policies set out the Group's values and the importance that is placed on honest, ethical and lawful conduct in all business dealings. The Code of Conduct also sets out the Group's policy on anti-slavery and human trafficking, in accordance with the Modern Slavery Act 2015. Group employees, agents and suppliers are asked, where relevant, to confirm that they do and will continue to comply with these policies. A gifts and hospitality register is operated by each business unit to ensure transparency where items are over a certain monetary threshold. In addition, all employees who are considered the most likely to be exposed to bribery and corruption are given web-based anti-bribery and corruption training.

Arrangements are in place by which employees are able to raise, in confidence, any concerns they may have about possible wrongdoing or dishonest or unethical behaviour, such as bribery, corruption, fraud, dishonesty and illegal practices. An external independent whistleblowing provider provides a confidential web-based and telephone facility which has been communicated across the Group, branded as "Speak Up", to ensure awareness. The Code of Conduct protects anyone who comes forward to make a disclosure under the Whistleblowing Policy. When a disclosure is made, the Company Secretary reports the matter to the Committee chair and initiates an investigation to include all necessary parties. A report on the investigation is submitted to the Committee and appropriate steps are taken to ensure that any matters relating to any disclosures have been resolved satisfactorily. The Committee also has the power to conduct further enquiries itself or any other additional actions it sees fit.

The Committee has reviewed these arrangements and is satisfied that they are operating effectively.

Committee performance evaluation

During the year, the Board conducted an internally facilitated evaluation of the performance of the Board, its Committees, the Directors and the Chair. Further details can be found in the Governance Report on page 120. This process concluded that the Committee had fulfilled its role effectively and did not identify any significant development points requiring action.

Fair, balanced and understandable

The Board has responsibility under the Code for preparing the Company's Annual Report and Accounts, ensuring that it presents a fair, balanced and understandable (FBU) assessment of the Group's position and prospects and that it provides the information necessary for shareholders to assess the Group's performance, business model and strategy. The review of the Annual Report and Accounts took the form of a detailed assessment of the collaborative drafting process, which involves the Board members, the Senior Management team, Group finance and the Company Secretary, with guidance and input from external advisers. This ensures that there is a clear and unified link between this Annual Report and Accounts and the Group's other external reporting, and between the three main sections of the Annual Report and Accounts – the Strategic Report; the Governance Report; and the Financial Statements. In addition, the Committee receives a report highlighting areas for FBU consideration to ensure compliance before approval of the Annual Report and Accounts.

In particular, the Committee: reviewed all material matters, as reported elsewhere in this Annual Report and Accounts; ensured that it fairly reflected the Group's performance in the reporting year; ensured that it reflected the Group's business model and strategy; ensured that it presented a consistent message throughout; and considered whether it presented the information in a clear and concise manner, illustrated by appropriate KPIs, to facilitate shareholders' access to relevant information.

A summary of the process, and of the Committee's findings, was considered by the Board at its meeting on 3 October 2023. The outcome of that review was that the Committee confirmed to the Board that the Annual Report and Accounts 2023 met the requirements of the 2018 Code and the Board's formal statement to that effect is set out on page 166.



Jonathan Davis
Chair of the Audit Committee
4 October 2023