

# Audit Committee report

## 2022 meeting attendance

Andrew Cripps (5/5)  
 Karen Caddick (5/5)  
 Geoff Drabble (5/5)  
 Louise Fowler (5/5)  
 Debbie White (5/5)

## Key activities in the year ahead

- Review of the Annual Report and Accounts and preliminary results announcement.
- Review of Audit Committee effectiveness.
- KPMG's reappointment as auditor to be recommended to shareholders at the Annual General Meeting (AGM).
- Shareholder update by the Audit Committee Chair at the AGM.
- Review of the 2023 interim results.
- Consideration of internal audit's annual plan, findings, independence, and resources.
- Review of key controls.
- Approval of the 2024 Audit Committee calendar.

**Andrew Cripps**  
 Audit Committee Chair



## Introduction from the Committee Chair

I am pleased to present this report covering the work of the Audit Committee.

In 2022, global events and business developments have required us to review a variety of financial and control risks at each meeting. In addition to our normal business overseeing the external and internal processes, we have also received updates from management on cyber and information security strategy, depot compliance and we met with the Commercial Finance Director to consider that function's risks and priorities.

Volatility in financial markets in the autumn also resulted in the Committee calling an additional meeting in January 2023 with the Company's pension advisors to review valuations of pension fund assets and liabilities because the carrying value of the pension fund is a significant item in the consolidated balance sheet.

During 2022, the new lead external audit partner and I were in regular contact and, at each meeting, the Committee received updates on KPMG's progress in their first year as our external auditor. More information on the onboarding process can be found in the case study on page 140. I'd also like to take this opportunity to thank Deloitte for their tenure as external auditor to Howdens.

I reported last year on our project to review the Group's internal controls to reappraise and document key controls and strengthen evidencing of the control environment. This work has continued throughout 2022 with the Audit Committee receiving updates on the project at each of its meetings during the year. This is considered in more detail on page 142 but I am pleased to note that the Group has made significant progress in documenting and 'attesting' controls and is automating controls wherever possible. This will improve our ability to evidence our control environment and enable the Committee to provide greater assurance to the Board.

The Committee undertook its regular governance reviews, reviewing external audit policies, monitoring the effectiveness of the external audit process and reviewing conflicts of interest. We await the outcome of the Government's White paper on 'Restoring trust in audit and corporate governance' and believe that we remain well positioned to respond to any proposed changes.



Finally, I was pleased no questions were raised by the FRC following their review of our 2021 Annual Report and Accounts in accordance with Part 2 of the FRC Corporate Reporting Review Operating Procedures<sup>1</sup>. It was also pleasing to receive a number of accolades during the year in respect of the quality of our external reporting. Howdens was the recipient of the Annual Report of the Year - FTSE 250 award by the Chartered Governance Institute (formerly the ICSA) which recognised that our 2021 Annual Report had a consistently high standard of commentary throughout the report and offered real insights into the business. Later in the year, the FRC used our schematic on purpose, culture, sustainability and governance as a best practice example in their publication 'What makes a good... Annual Report and Accounts'.

Whilst it is reassuring to receive external recognition, we recognise the ongoing importance of maintaining rigorous reporting standards and will continue to strive for high standards in both our financial and non-financial reporting.

I look forward to reporting directly to shareholders at our AGM in May.

**Andrew Cripps**  
 Audit Committee Chair



<sup>1</sup> The FRC's review was based on the Annual Report and Accounts and did not benefit from detailed knowledge of the business or an understanding of the underlying transactions entered into. It was, however, conducted by FRC staff with an understanding of the relevant legal and accounting framework. The review carried out by the FRC provides no assurance that the Annual Report and Accounts were correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements.

## Audit Committee report continued

### Financial reporting

#### Results review

The Audit Committee reviewed the Group's 2022 Annual Report and Accounts and the half-yearly financial report published in July 2022.

As part of these reviews, the Committee received papers from management on accounting policy, areas of significant judgement, the Group's key risks, going concern considerations and longer-term viability. The Committee also discussed reports from KPMG on their audit of the Annual Report and Accounts and review of the half-yearly financial report.

The Committee considered whether the Annual Report and Accounts were fair, balanced and understandable and contained the information necessary for shareholders to assess the Company's position, performance, business model, and strategy.

#### Controls over financial reporting

The Committee received a report from the Head of Internal Audit and Risk on the results of key control questionnaires prepared by Group and Divisional management. The effectiveness of the Group's internal financial controls (with specific reference to controls in place on a divisional basis) and the disclosures made in the Annual Report and Accounts on this matter were reviewed by the Audit Committee.

The Committee also received regular updates in respect of the key controls project during the year. More information on the key controls project can be found on page 142.

#### Areas of significant financial judgement

The Committee exercises its judgement in deciding the areas of accounting that are significant to the Group's accounts. The external auditor's report details the results of their procedures in relation to these areas to the Committee.

The matters shown below have been discussed with the Chief Financial Officer, Group Finance Director, and the external auditor. The Committee is satisfied that each matter has been fully and adequately addressed by the Executive Committee, appropriately tested, and reviewed by the external auditor, and the disclosures made in the 2022 Annual Report and Accounts are appropriate.

#### Areas of significant financial judgement:

Inventory obsolescence provisioning

Defined benefit pension scheme

Parent company accounting (new in 2022)

#### Inventory obsolescence provisioning

The Group's in-stock model (further information about which may be found on pages 14 and 15) and the scale of our product range necessitates tight management of inventory to ensure local availability of stock while at the same time minimising obsolescence and wastage. In 2022, management continued to take a strategic position on stock.

The external auditor provided reports to the Committee which considered the appropriateness of provisions held against the carrying value of inventory, while also having regard to the age of discontinued lines and volumes of continuing lines relative to the expected usage and the levels of historical write-offs.

The Committee reviewed the processes used to value each category of inventory, including the assumptions behind obsolescence provisions, and were satisfied with the judgements made.

#### Actuarial valuation of pension fund liabilities

Whilst there were no changes in the year to the methodology for the valuation assumptions, the significant change to the discount rate during the year meant that there was additional focus on this judgemental disclosure.

The Committee met with the Company's actuaries and carefully reviewed their report, concluding that:

- the actuarial assumptions applied to pension fund liabilities, and in particular the discount, inflation and mortality assumptions, were consistent and appropriate; and
- they concurred with the views of the external auditors.

#### Valuation of pension fund assets

The Audit Committee also considered processes to value pension fund assets. Following market volatility in September 2022, 76% of total pension fund assets at the 2022 financial period end (2021: 35%) were assets for which there is no observable market value (see page 196). Some of the asset valuations required judgement because manager valuations at the balance sheet date were not expected to be available until after the finalisation of this report. To minimise the risk that the valuations were not in line with assumptions, the asset managers were contacted to check for indicators of impairment or expected impairments, any significant market events that may have impacted the assets since the latest valuation, or any significant changes in fund composition which would lead them to think that there had been any impairment since the most recent valuation date. The Committee concurred with the approach taken.

#### Parent company accounting

During the year, management reassessed accounting in the parent company, Howden Joinery Group Plc. This has led to clarification of the disclosure of the parent company's investment in its principal subsidiary and an impairment of an inter-company receivable in the parent company balance sheet. In addition, a review of the Group's leases under IFRS16 identified that certain leases needed to be included in the parent company accounts rather than being accounted for in the operating companies utilising the relevant properties because the parent company is the signatory of these leases.

These changes resulted in prior year adjustments to the parent company's accounts, including to distributable reserves. However, these do not affect the consolidated results of the Group previously reported.

The Audit Committee reviewed management's proposals relating to the parent company and concluded that all recommendations were appropriate. Further details of the changes to the parent company balance sheet may be found on page 209.

#### Other areas of Audit Committee consideration

##### Patent Box tax relief

The Board approved the submission of a claim for tax relief under the UK Patent Box Tax Relief Scheme in July 2022, as set out in detail on page 31. Following the approval, the claim was included in the 2021 tax computation. The claim relates to a patented cabinet leg and the submission to HMRC covers the total period claimable since the patent was filed in 2017. The Committee reviewed the recommendations of EY tax specialists who have been advising the Company on the claim.

The Company has to recognise the full likely amount of the claim in the financial statements in accordance with IFRIC 23 given the success of the claim is deemed to be more likely than not. However, the amounts will only be confirmed when the relevant tax returns are agreed by HMRC. The Audit Committee considered the Company's accounting treatment, assumptions surrounding the valuation of the claim, and the views of the tax advisors and external auditors, and concurred with the approach taken.

### Governance

#### Governance updates

Updates on the latest governance practices for audit committees and changes in reporting requirements were provided by the external auditor. In addition to other resources, members of the Audit Committee are members of the KPMG Board Leadership Centre, which provides updates on financial and reporting matters.

The Committee received regular updates on the proposed corporate governance reforms as set out in the Government's White paper 'Restoring trust in audit and corporate governance'.

#### Committee effectiveness

An effectiveness review was carried out on the Committee and its members as part of the wider external Board evaluation process. The review concluded that the current mix of financial, commercial and relevant sector experience of the Audit Committee, and that of its advisors, was such that the Committee could effectively exercise its responsibilities to the Group in relation to risk and controls.

#### Policies and conflicts

The Committee reviewed its policies in relation to allocation of non-audit work (further detail on this policy may be found on pages 141 and 142) and employment of ex-audit firm personnel. It also reviewed the Directors' conflicts of interest register. Further information about the Committee's review of conflicts of interest may be found on page 143.

#### Competition and Markets Authority (CMA) Order compliance

The Audit Committee confirms that the Company has complied with the provisions of the Order throughout its financial period ended 24 December 2022 and up to the date of this report.

#### Committee membership

The Committee is composed entirely of independent Non-Executive Directors. Independence is critical for fair assessment of the management team and the external and internal audit functions.

#### Committee Chair

Andrew Cripps was appointed Audit Committee Chair in May 2016. He is responsible for determining the Committee's agenda and for maintaining the key relationships between the Group's senior management, Head of Internal Audit and Risk, the Company Secretary and senior representatives of the external auditor. He is also responsible for ensuring that key audit issues are reported to the Board in an effective and timely manner and that they are reported to shareholders in the Annual Report.

Andrew will present a summary of the work of the Audit Committee to shareholders at the 2023 AGM.

#### Recent and relevant financial experience

Andrew Cripps is a qualified Chartered Accountant and has held executive director roles in the UK and Europe with Rothmans International, where he was Corporate Finance Director. More recently, Andrew has been Audit Committee Chair of a number of FTSE 250 and other public companies.

#### Competence relevant to the sector

The unique business model of Howdens means it does not naturally fit into one sector and therefore when the Committee undertook an assessment of its skills and experience it assessed them against a number of sectors relevant to the Company. These included building and construction, multi-site wholesale, manufacturing and logistics, and service to customers.

The Committee concluded that competence relevant to these sectors was well represented within the current membership. Thorough inductions are provided to the Committee members and opportunities to meet with senior management and Executives further enhance their working knowledge of the way the Company operates.

## Audit Committee report continued

### External auditor\*

External auditor	KPMG LLP ("KPMG")
External auditor appointed	12 May 2022
Lead audit partner	Robert Brent
Lead audit partner tenure	Year 1 (of a 5-year cycle)
Total fees paid to auditor in the year	£1.2m (non-audit fees accounted for £0.1m of the total fee)

\* The information above is correct as at 24 December 2022.

### External audit tender

Following a comprehensive external audit tender process, the Audit Committee made a recommendation to the Board in 2021 to appoint KPMG as the Group's external auditor from 2022. The Board recommended KPMG's appointment to its shareholders at the 2022 AGM and shareholders approved the appointment with 98.8% of votes in favour. A case study on the onboarding of the new external auditor can be found below. The Board will recommend KPMG's re-appointment to shareholders at the 2023 AGM.

### Case study

## External auditor transition

Transitioning to a new external auditor creates a number of risks and benefits for companies. Ensuring that the new auditor is prepared and 'hits the ground running' on their first audit can help to mitigate some of these risks. Selecting the right audit team that will work collaboratively with the Company's finance teams and minimise management disruption is essential. However, an updated audit approach and fresh perspective also benefits audit quality, so it is important to ensure a seamless transition between ingoing and outgoing auditors.

During the external auditor tender process, the Audit Committee considered proposals on the approach to transition from the incumbent auditor (Deloitte). In their proposal, KPMG set out their transition methodology and timetable, which is considered in this case study.

Following confirmation of the Company's intention to appoint KPMG as auditor, KPMG set out to execute their transition plans to the agreed timetable. Five factors for a successful transition were identified:

1. Early clearance of accounting judgements
2. Clear understanding of how the Howdens business operates
3. Focus on all aspects of reporting, including statutory accounts
4. Early and proactive communication and identification of issues all year round
5. Focused approach without compromising quality

### External auditor independence

Auditor independence is an essential part of the audit framework and the assurance it provides. The Committee therefore undertook a comprehensive review of auditor independence prior to appointment and during 2022, which included:

- A review of the independence of the external auditor and the arrangements which they have in place to restrict, identify, report and manage conflicts of interest.
- A review of the changes in key external audit staff for the current year and the arrangements for the day-to-day management of the audit relationship.
- Consideration of the overall extent of non-audit services provided by the external auditor, in addition to case-by-case approval of the provision of non-audit services as appropriate.
- Deliberation of the likelihood of a withdrawal of the auditor from the market and note taken of the fact that there are no contractual obligations to restrict the choice of external auditor.

From June 2021, KPMG shadowed Deloitte and this continued throughout the 2021 year-end process. The KPMG team were able to observe ways of working with the Howdens finance teams and familiarise themselves with the key accounting judgements and risk assessments. Senior members of the KPMG team also attended Audit Committee meetings from July 2021 to observe the Committee at work. Concurrently, the KPMG team met with the Howdens finance and internal audit teams to discuss plans for the 2022 half-year review and audit.

Following the conclusion of the 2021 audit by Deloitte, KPMG undertook a thorough review of the outgoing auditor's audit files, launched the KPMG Clara collaboration tool and provisionally confirmed key accounting policies and approach to judgements. There were initial walkthroughs of the end-to-end processes for the key transaction flows (such as revenue recognition and inventory management). The approach towards technology was set out in a detailed plan, as well as data extraction to assess the general IT control environment.

The Audit Committee received an update on how transition plans were progressing at the April 2022 Committee meeting. The lead audit partner also met with all members of the Board ahead of the half-year review to discuss their expectations and areas of focus for the audit process.

The successful transition process has resulted in a high-quality audit from the KPMG team and a corresponding level of assurance for the Audit Committee. We will continue to refine the audit process further in future years.

At the year end, the external auditor formally confirmed that they had complied with the requirements of the FRC Ethical Standard as well as internal requirements and their independence and objectivity had been maintained. The Audit Committee also has a policy in relation to the employment of former members of the external audit team.

### External auditor effectiveness

To assess the effectiveness of the external auditor, the Committee reviewed:

- The proposed plan of work presented by the external auditor, including audit risks, materiality, terms of engagement and fees prior to commencement of the 2022 audit.
- The external auditor's fulfilment of the agreed audit plan and any variations from the plan.
- Evaluation from key management personnel and members of the Committee of the external auditor's exercise of professional scepticism and challenge.
- Robustness and perceptiveness of the auditor in their handling of the key accounting and audit judgements.
- Internal control and risk content of the external auditor's report.
- Independence of thought and potential for conflict.

### External auditor fees

All relevant fees proposed by the external auditor must be reported to and approved by the Audit Committee.

Details of external audit fees may be found in the table on the facing page and in note 4 to the consolidated financial statements (page 172).

### Policy for non-audit services provided by the external auditor

The main aims of this policy are to:

- Ensure the independence of the auditor in performing the statutory audit; and
- Avoid any conflict of interest by clearly detailing the types of work that the auditor can and cannot undertake.

The Audit Committee has reviewed the policy for non-audit services to ensure that it is in line with the FRC's Revised Ethical Standards 2019 (which took effect from 15 March 2020) and the FRC's Audit Quality Practice Aid 2019.

The policy, in line with regulation, substantially limits the non-audit services which can be provided by the external auditor. The policy provides:

- A 70% cap of the value of the audit fee for all non-audit services calculated on a rolling three-year basis.
- Categories of service that are prohibited from being carried out by the auditor.

## Performance expectations for the external auditor

### Specific auditor responsibilities

- Discuss the audit plan, materiality, and areas of focus in advance.
- Report issues at all levels within the Company in a timely fashion.
- Ensure clarity of roles and responsibilities between local KPMG and Howdens' Finance teams.
- Respond to any issues raised by management on a timely basis.
- Meet agreed deadlines.
- Provide continuity and succession planning of key staff members of KPMG.
- Provide sufficient time for management to consider draft auditor's reports and respond to requests and queries.
- Ensure consistent communication between local and central audit teams.

### Wider responsibilities

- Provide timely up-to-date knowledge of technical and governance issues.
- Serve as an industry resource, communicating best practice trends in reporting.
- Adhere to all independence policies.
- Deliver a focused and consistent audit approach for the Group that reflects local risks and materiality.
- Liaise with the Howdens Internal Audit and Risk team to avoid duplication of work.
- Provide consistency in advice at all levels.
- Ultimately, provide a high-quality service to the Board, be scrupulous in their scrutiny of the Group and act with utmost integrity.

### Independence

The Committee reviews the independence of the external auditor bi-annually. This includes consideration of the potential for conflicts of interest as well as the auditor's internal procedures to ensure independence of its staff.

## Audit Committee report continued

The policy specifies a de minimis limit as well as the type of non-audit work that the auditor may be engaged in without the matter first being referred to the Audit Committee, which considers each referral on a case-by-case basis.

The policy ensures that the auditor does not audit its own work or make management decisions for the Company or any of its subsidiaries. The policy also clarifies responsibilities for the agreement of fees payable for non-audit work.

No non-audit services were provided by KPMG during the year.

### Controls and internal audit

#### Internal control framework

The Group has an established framework of internal controls, which includes the following key elements:

- The Board approves the Group's strategy and annual budgets; the Executive Committee is accountable for performance within these.
- The Group and its subsidiaries operate control procedures designed to ensure complete and accurate accounting of financial transactions and to limit exposure to loss of assets or fraud.
- The Audit Committee meets regularly and its responsibilities are set out in the Audit Committee Terms of Reference (which may be found on the Company's website at [www.howdenjoinerygroupplc.com/governance/corporate-governance-report/terms-of-reference-of-the-audit-committee](http://www.howdenjoinerygroupplc.com/governance/corporate-governance-report/terms-of-reference-of-the-audit-committee)). It receives reports from the Internal Audit function on the results of work carried out under an annually agreed audit programme. Operational and compliance controls are considered when the Committee reviews the annual Internal Audit programme. The Audit Committee has full and unfettered access to the internal and external auditors.
- Operating entities provide certified statements of compliance with specified key financial, IT and cyber controls. These controls are cyclically tested by Internal Audit to ensure they remain effective and are being consistently applied.
- The Audit Committee annually assesses the effectiveness of the assurance provided by the internal and external auditors.

#### Key Controls

As reported in the 2021 Annual Report and Accounts, management have challenged and reviewed key controls across the business to focus and further strengthen our overall control framework. Sponsored by the CEO and CFO, and reporting regularly to the Audit Committee, this project is improving our capability to identify operational, IT and financial controls which mitigate our key and principal risks and evidence their effective implementation.

Good progress in delivery of the project continued throughout 2022 with regular updates being provided to the Audit Committee. Internal project management and governance frameworks were determined to be working effectively and the Committee was satisfied with the progress made during the year.

The Committee remains committed to the activities to strengthen the control environment regardless of the outcome of the Government's White paper 'Restoring trust in audit and corporate governance', although it is likely that this will guide prioritisation and activity for 2023.

#### Internal audit

The Internal Audit team has continued to develop its capabilities during the year. This includes further development of data analytics and systemisation of controls. An updated Internal Audit Charter has been approved by the Committee and communicated to management, thereby refreshing understanding of responsibilities for internal controls and their verification, based on the three lines of defence model.

The Committee reviewed:

- Internal Audit's programme of work and resources and approved its annual plan and budget.
- The level and nature of assurance activity performed by Internal Audit.
- Results of audits and other significant findings including the adequacy and timeliness of management's response.
- Staffing, reporting and effectiveness of divisional audit.

#### Independent assurance

The Committee assessed the coverage of independent assurance by reviewing the annual internal audit plan against the Group's key controls.

#### Internal audit effectiveness

The Committee considered that the Internal Audit function remained effective and provided a comprehensive level of assurance through its programme of work.

The Audit Committee has commissioned an external assessment of the internal audit function every five years to assess the performance and effectiveness of the Internal Audit department.

In 2021, the Audit Committee commissioned an external quality assessment (EQA) readiness assessment (a standard developed by the Chartered Institute of Internal Auditors) of the internal audit function. An EQA evaluates conformance with the International Professional Practices Framework (IPPF), which includes the Code of Ethics, the Core Principles, the Definition of Internal Audit and the International Standards for the Professional Practice of Internal Auditing (the IIA Standards).

The readiness assessment concluded that the function's processes were effective and robust and would be sufficient to meet the requirements of a full EQA. No areas reviewed were considered to be of concern, although a small number of best practice improvement recommendations were made and have been implemented in 2022.

Given the output of the EQA readiness assessment, the Audit Committee agreed to reconsider external assessment of the function in three years' time. As such, the next effectiveness review will be considered in 2024.

#### Fraud risk

The Committee considered the controls in place to mitigate fraud risk and received a report from Internal Audit which confirmed the effectiveness of those controls. A further enhancement project is underway as part of our key controls.

#### Cyber and information security risk

The risk of a cyber security incident is considered to be one of the Group's principal risks. More information on this risk can be found on page 43.

Updates on cyber and information security were presented to the Committee by the Head of Information Security and the Director of Infrastructure and Service Delivery at the Committee meetings in April and July. In September, the Committee noted that, in addition to the development of technical controls to mitigate the increasing risk of a cyber security incident, a revised strategy for Security Governance had been implemented to ensure clear direction to the business.

There were no significant information security breaches during the year and there have been no such breaches during the preceding three-year period.

#### Divisional controls

Senior management from the business are invited to discuss the controls in their business areas. The Director of Finance and the Head of Compliance for the Trade division gave presentations on the key risks and control environments in their area. In September, the Commercial Finance Director also presented to the Committee.

#### Whistleblowing

Complaints on accounting, risk issues, internal controls, auditing issues and related matters are reported to the Audit Committee as appropriate. Oversight of the Company's whistleblowing policy is a matter considered by the Board. The Board receives biannual updates on whistleblowing statistics and trends (see pages 82 and 83).

#### Conflicts of interest

The Companies Act 2006 places a duty upon Directors to ensure that they do not, without the Company's prior consent, place themselves in a position where there is a conflict, or possible conflict, between the duties they owe the Company and either their personal interests or other duties they owe to a third party.

If any Director becomes aware that they, or any party connected to them, have an interest in an existing or proposed transaction with the Company, they must notify the Board as soon as practicable. The Board has the authority to authorise a conflict if it is determined that to do so would be in the best interests of the Company. The Audit Committee reviews the output of this process annually to ensure it is appropriately monitored.

By order of the Board

**Andrew Cripps**  
Audit Committee Chair

6 March 2023