

Governance

Audit Committee report

2023 meeting attendance

- | | |
|----------------------------------|----------------------|
| Andrew Cripps (6/6) | Louis Eperjesi (3/3) |
| Karen Caddick (5/6) ¹ | Louise Fowler (6/6) |
| Geoff Drabble (3/3) | Debbie White (6/6) |

¹ Karen was unable to attend the November Committee meeting due to illness.

Andrew Cripps
Audit Committee Chair



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).
- Review of the 2024 interim results.
- Consideration of internal audit's annual plan, findings, independence, and resources.
- Review of key controls.
- Approval of the 2025 Audit Committee calendar.

Introduction from the Audit Committee Chair

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

Corporate governance trends have been in a state of flux as of late. There have been differences in opinion as to whether the UK Corporate Governance Code should focus on promoting reporting of deeper controls over financial matters, as in other jurisdictions, or as has happened, on broader operational controls over the whole business. Over the last several years Howdens has been working hard to enhance controls on a number of fronts. This year's progress includes improving precision and evidencing of financial controls, tightening IT governance, and clarifying vital non-financial controls. The Committee has been overseeing these activities closely and providing appropriate support. Next steps will include identifying which of the large number of controls are most critical to business reliability and efficiency so as to ensure that reporting is appropriately prioritised.

The Committee has also been encouraging the Company's identification and sharpening of controls over fraud which already had a strong foundation, as is appropriate in the current economic climate.

We have included a case study in this report on the Audit Committee's role in overseeing the controls that mitigate our cyber and information security risk, one of our principal risks. The case study can be found on page 136. Receiving updates from management and the security team has become a regular feature of the Committee as the Company adapts to this increasing and evolving risk. I hope that the case study provides some insight into the Committee's level of oversight and some of the important work we consider.

The Audit Committee also continued its programme of inviting divisional finance directors to present on their part of the business. In April 2023, we received an update from the Supply Operations Finance Director. The Committee were able to gain valuable insight into not just Supply Operations' financial objectives for the year, but also a ten-year strategic investment plan. The annual update from the Head of Trade Compliance reviewed adherence to both financial and non-financial controls in depots including health and safety, inventory management, and fraud. The HR Director presented to the Committee on the evolution of HR controls including those that assist depots to fulfil their HR obligations. These updates from operational management are vital for the Committee, as they bring operative insights into the Boardroom.

The Committee received updates on compliance in our French business and we have invited the Finance Director in France to present to the Committee in 2024. The Committee also undertook its regular governance reviews, reviewing external audit policies, reviewing conflicts of interest and monitoring the effectiveness of the external audit process.

Our external reporting continued to receive external accolades and we were particularly pleased that the Corporate and Financial Awards commended Howdens on its authentic communication that was aligned with our culture. As I stated in last year's report, receiving external recognition is gratifying, and in some respects reassuring, but the Audit Committee recognises the primary importance of maintaining rigorous reporting standards and the confidence that this gives our stakeholders. The Committee is committed to building on these high standards in both financial and non-financial reporting.

Robert Brent, our audit partner, is retiring at the end of this audit cycle. I would like to take this opportunity to thank Robert for his efforts and for overseeing the transition from Deloitte to KPMG. We look forward to working with our new audit partner, Kamran Walji, who shadowed Robert through this year's audit.

I also look forward to answering any questions on the work of the Audit Committee from shareholders at our AGM.

Andrew Cripps
Audit Committee Chair

2023 Audit Committee activity

H1		H2	
January		July	
Committee meeting <ul style="list-style-type: none"> • Year End 2022: key judgements • External Audit update • Key controls: year end assurance 		Committee meeting <ul style="list-style-type: none"> • 2023 Half Year results, including going concern considerations • External auditor Half Year review • Key controls and Half Year control reviews update • Internal audit report • Conflicts of interest review • Discussion with external auditor (without management present) 	
February		September	
Committee meeting <ul style="list-style-type: none"> • 2022 draft Annual Report and Accounts and Full Year Announcement • External audit report • External audit policies • Internal audit report • Key controls • Audit Committee effectiveness • Discussion with external auditor (without management present) 		Committee meeting <ul style="list-style-type: none"> • Cyber security update • Internal audit report • HR controls update • Depot compliance update • 2023 Annual Report timetable • Lead audit partner succession • Key controls and fraud controls • Annual review of risk and control framework • Discussion with Head of Internal Audit (without management present) 	
April		November	
Committee meeting <ul style="list-style-type: none"> • Cyber security update • Internal audit report • Effectiveness of the external auditor and audit processes • 2023 external audit plan • Supply Operations Finance Director update • Discussion with Head of Internal Audit (without management present) 		Committee meeting <ul style="list-style-type: none"> • External audit plan update • Internal audit charter • Internal audit report • 2024 Internal audit plan and budget • Key controls and fraud controls • Terms of reference review • 2024 Audit Committee calendar 	
May			
AGM <ul style="list-style-type: none"> • The re-appointment of KPMG LLP as the external auditor and authority for the Directors to determine the auditor's remuneration were approved by shareholders 			

Governance

Audit Committee report continued

Financial reporting

Results review

The Audit Committee reviewed the Group's 2023 Annual Report and Accounts published in March 2023 and the half-yearly financial report published in July 2023.

As part of these reviews, the Committee scrutinised 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 the results of management's key control assessments prepared by Group and Divisional management half yearly as well as a report from the Head of Internal Audit and Risk on the scope of those controls and adequacy of evidence retained. 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 debated regular updates in respect of the wider key controls programme during the year. More information on the key controls programme can be found on page 138.

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 has challenged the underlying assumptions and 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 2023 Annual Report and Accounts are appropriate.

Areas of significant financial judgement:

- Inventory obsolescence provisioning**
- Defined benefit pension scheme**

Inventory obsolescence provisioning

The Group's in-stock model (further information about which can be found in the Strategic report beginning on page 2) 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 2023, management continued to take a strategic position on stock holding. The Committee reviewed management's conclusions on stock valuation and provisioning.

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 considered 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

As part of the triennial actuarial valuation of the pension plan, changes were made to demographic assumptions, including those for mortality assumptions. The methodology for all other assumptions remained the same.

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 appropriate; and
- they concurred with the views of the external auditors.

Other key judgements

Valuation of pension fund assets

The Audit Committee also considered processes to value pension fund assets. At 30 December 2023, 57% of total pension fund assets (2022: 76%) were assets for which there is no observable market value (see note 22 on page 195).

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.

Governance

Governance updates

Updates on the latest governance practices for audit committees and changes in reporting requirements were reviewed with the external auditor. This included the FRC's minimum standard guidance for audit committees' oversight responsibilities for the external audit. In addition to other resources, members of the Audit Committee are members of the KPMG Board Leadership Centre and other bodies, which provide updates on financial and reporting matters.

During the year, the Committee received regular updates on the proposed corporate governance reforms. This included the withdrawal of proposed secondary legislation to affect the reforms set out in the Government's White paper 'Restoring trust in audit and corporate governance' in October and the publication of the updated UK Corporate Governance Code 2024 by the FRC in January 2024. External audit and internal controls remain live topics and the Committee will continue to monitor any proposed audit or wider corporate governance reforms.

Committee effectiveness

An effectiveness review was carried out on the Committee and its members as part of the wider internal 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 page 138) and employment of ex-audit firm personnel. It also reviewed the Directors' related parties and conflicts of interest register. Further information about the Committee's review of related parties and conflicts of interest may be found on page 139.

Competition and Markets Authority Order (the 'Order') compliance

The Audit Committee confirms that the Company has complied with the provisions of the Order throughout its financial period ended 30 December 2023 and up to the date of this report.

Audit Committees and the External Audit: Minimum Standard (the 'Minimum Standard')

Since the introduction of the FRC's Minimum Standard in May 2023, and in undertaking its role and responsibilities during the year, the Audit Committee has complied with the Minimum Standard throughout the year.

Committee membership

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

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.

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.

Governance

Audit Committee report continued

Case study

Cyber Security and Information Security Risk Governance

As is the case for the majority of companies, cyber security is treated as one of Howdens' principal risks (see page 40). Howdens' systems are fundamental to the day-to-day secure running of the business and the Board has set a very low risk appetite for cyber security risk. As such, one of the key roles of the Audit Committee during the annual cycle is to evaluate updates from management on the threat landscape and the actions take to mitigate this risk as far as possible.

The Audit Committee received two updates on cyber and information security during 2023 (at the April and September meetings) from the Chief Customer Officer, Director of Infrastructure and Service Delivery, and Head of Information Security.

The security team updated the Committee at its meeting in April on progress to date against strategic deliverables. These included an update on cyber security strategy and control governance, progress towards securing the ISO27001 Information Security Management standard and aligning to the IEC62443 Cyber Security in Operational Technology standard. The Committee were also briefed on the successful implementation of multi-factor authentication which had been introduced for all remote users and the outcome of simulated phishing exercises that had been undertaken involving over 11,000 employees. Details of a full cyber crisis management simulation (conducted during the year) with the Group Crisis Management teams were also considered.

The September meeting was provided with further updates on the strategic roadmap activities (control governance, phishing exercises and user awareness) and also a review of the transition of the French server infrastructure to the UK datacentre.

At both meetings, the Audit Committee considered a publicly available security scorecard, which is an independent benchmark of the Company's external website. This data provides useful insight into the external security of howdens.com which was visited c.20 million times in 2023.

The Committee will continue to receive updates on cyber and information security in 2024, including on progress towards control governance standards and initiatives to reinforce cyber security culture at Howdens.



External auditor¹

External auditor	KPMG LLP ('KPMG')
External auditor appointed	12 May 2022
Lead audit partner	Robert Brent ²
Lead audit partner tenure	Year two (of a five-year cycle)
Total fees paid to the auditor in the year	£1.4m (audit related assurance services accounted for £0.1m of the total fee)

¹ The information above is correct as at 30 December 2023.
² Robert Brent will be retiring following the completion of the 2023 audit. He will be succeeded as lead audit partner by Kamran Walji.

External audit tender

Following a comprehensive external audit tender process, 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. The Board recommended KPMG's re-appointment to shareholders at the 2023 AGM and shareholders approved the re-appointment with 98.9% of votes in favour. The Board will once again recommend KPMG's re-appointment to shareholders at the 2024 AGM.

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 2023, 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.

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 2023 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.

The Lead Audit Partner also met with all members of the Board to discuss their expectations and areas of focus for the audit process.

The Committee concluded that the external auditor remained effective and audit quality remained high.

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.

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Audit Committee report continued

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 page 136 and in note 4 to the consolidated financial statements (page 170).

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.

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, apart from interim review 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 can be found on the Company's website at 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 key financial & non-financial risk areas aligned with principal risks. These include IT and cyber controls, supplier management, ESG, health & safety and data protection as well as other operational areas. 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 previously reported, 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 work is improving our capability over our operational, IT and financial controls, which mitigate our key and principal risks and evidence their effective implementation.

Good progress continued throughout 2023 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 across the business.

Internal audit

The Internal Audit team has continued to develop its capabilities during the year. Building on the development of data analytics and systemisation of controls, members of the team also undertook ISO-accredited lead auditor training and achieved Chartered IIA status, or equivalent.

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 and challenged:

- 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 Internal Audit team continues to comply with the IPPF. These standards set out the expectations of the Global Institute of Internal Auditors (IIA) for best practice. In Q4 2023 the IIA announced revised Global IIA Standards which become mandatory in 2025. The Internal Audit team has revised working practices and is now aligned with these new standards in advance of mandatory implementation.

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, provided by the IIA. An EQA evaluates conformance with the International Professional Practices Framework (IPPF) outlined above. 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. The next effectiveness review will be considered in 2025, and will be conducted against the revised IIA standards outlined above.

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. The enhancement project, first reported in last year's Audit Committee report, is now complete. There will be further testing and assessments undertaken during 2024 to ensure that the Group is in line with best practice.

Cyber and information security risk

The risk of a cyber security incident is considered to be one of the Group's principal risks. A case study on cyber and information security can be found on page 136.

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 Supply Operations Finance Director and the Head of Compliance for the Trade division gave presentations on the key risks and control environments in their area. In September, the HR 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 78 and 79).

Conflicts of interest and related parties

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

28 February 2024