

Audit Committee report

Audit Committee 2021 meeting attendance

Andrew Cripps (6/6)
 Karen Caddick (6/6)
 Geoff Drabble (6/6)
 Louise Fowler (6/6)
 Debbie White (6/6)

Key activities in the year ahead

- Review of the Annual Report and Accounts and preliminary results announcement.
- KPMG's appointment as auditor to be recommended to shareholders at the AGM.
- Shareholder update by the Audit Committee Chair at the AGM.
- Review of the 2022 interim results.
- Consideration of internal audit's annual plan, independence, resources and findings.
- Review of key controls.
- Approval of the 2023 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 2021.

It has been a busy year for the Audit Committee. In addition to ensuring effective external and internal audits, the Committee has undertaken a number of projects.

We also concluded the process of selecting a new external auditor in 2021. We have provided a detailed case study of the external audit tender process on page 138 of this report given the vital role an effective external audit performs. The Committee are looking forward to the fresh perspectives a new external auditor will bring from 2022. We thank Deloitte for two decades of independent scrutiny of our annual accounts and recommend KPMG for appointment at the AGM.

As reported in this Committee report last year, Howdens is undertaking a project to review the Group's internal controls in order to reappraise and document key controls and strengthen the controls environment. This is an extended project that will continue into 2022. The scope of the work includes the mapping of core processes, IT general controls (ITGC) and a programme of enhancements to existing fraud risk management activity. The Group is systemising its control framework to provide greater segregation of duties. The Audit Committee will continue to receive updates from management on this important project in 2022.

The Committee continued its programme of presentations from management, particularly in the key areas of divisional finance, compliance and information security, including cyber risk. Receiving updates from the Head of Information Security remains a vital part of the Committee's agenda in helping to address the risk of a cyber security incident.

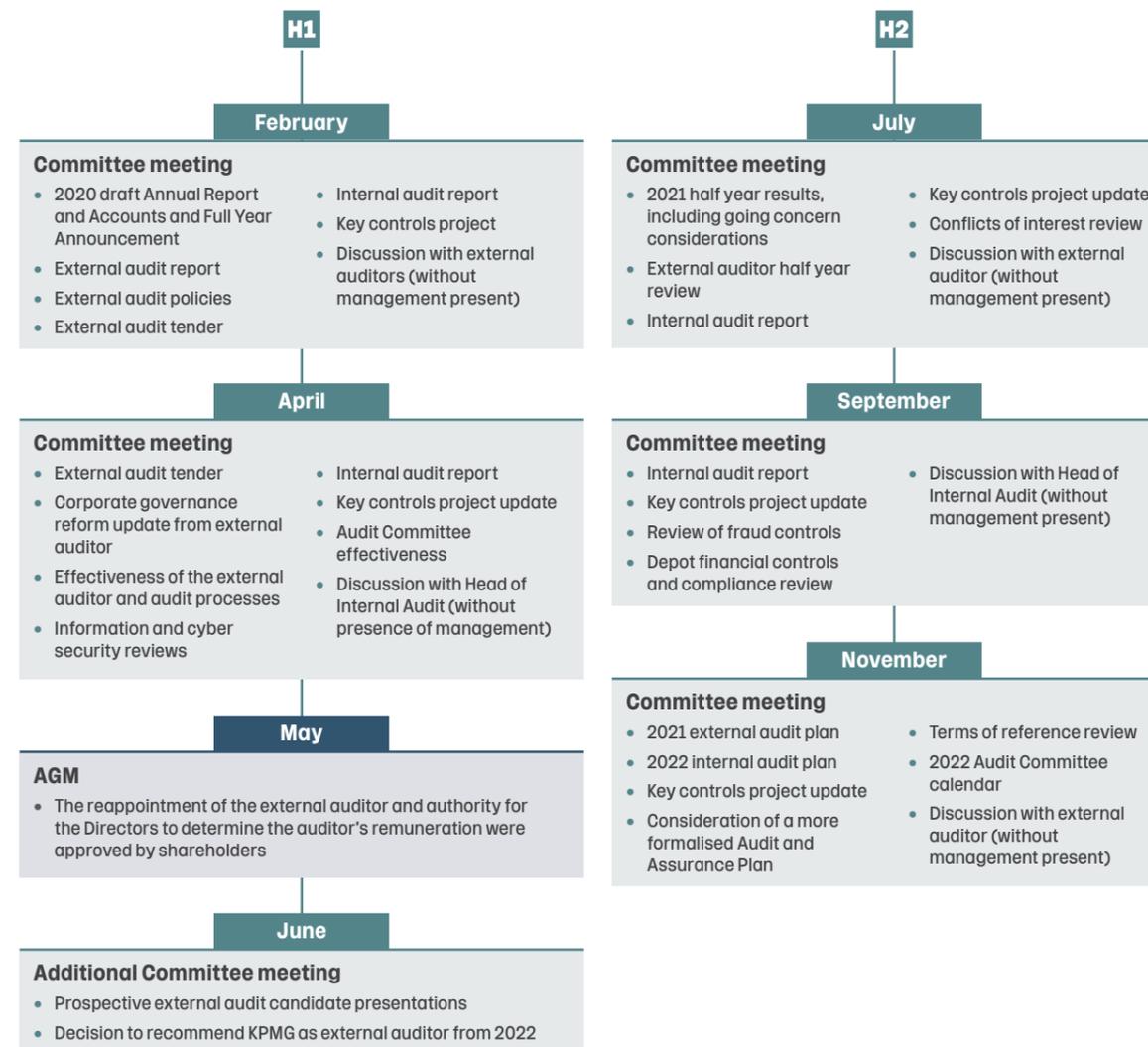
The Committee undertook its regular governance reviews during the year and worked with the newly formed Sustainability Committee and the Board in developing controls over the implementation of Task Force on Climate-Related Financial Disclosures (TCFD). More information on the Group's approach to TCFD can be found on pages 52 to 57.

Finally, it was pleasing to receive the FRC's letter in respect of their thematic review of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' relating to the disclosures in our 2020 Annual Report and Accounts. The FRC did not raise any questions or queries to which the Group needed to respond and only recommended minor improvements to our existing disclosures¹. This demonstrates the Group's continued commitment to high quality, transparent reporting and robust corporate governance practices.

I look forward to reporting directly to shareholders at our AGM and responding to questions.

Andrew Cripps
 Audit Committee Chair

2021 Audit Committee activity



¹ The FRC asks that companies make clear the inherent limitations of their review and that their review was based solely on our report and accounts and did not benefit from detailed knowledge the Howdens business or an understanding of the underlying transactions entered into.



Audit Committee report continued

Financial reporting

Results review

The Audit Committee reviewed the Group's 2021 Annual Report and Accounts and the half-yearly financial report published in July 2021.

As part of these reviews, the Committee received papers from management on changes in accounting policy, areas of significant judgement, the Group's key risks, going concern considerations and longer-term viability. The Committee also discussed reports from Deloitte 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.

Financial controls

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 140.

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 reports detailed 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, and the Committee is satisfied that each of the matters have been fully and adequately addressed by the Executive Committee, appropriately tested and reviewed by the external auditor, and the disclosures made in the 2021 Annual Report and Accounts are appropriate.

Areas of significant financial judgement

Inventory obsolescence provisioning

Validity of the actuarial assumptions

Area of significant financial judgement in 2021 and 2020

Inventory obsolescence provisioning

The Group's in-stock model (further information about which may be found on page 14) 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 2021, management continued to take a strategic position on additional safety stock to try and minimise the impact on depots from the issues seen in global supply chains caused by COVID-19.

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.

Validity of the actuarial assumptions

The Committee carefully reviewed the report of the Company's actuaries and concluded that:

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

It was noted that the upward trend in discount rates ahead of inflation, coupled with better than projected asset returns, resulted in the Pension Fund moving into surplus on an IAS 19 basis. The Committee concurred that this asset be regarded as recoverable in the balance sheet.

Distributable reserves

As reported in the 2020 Audit Committee report, the Committee requested that management analyse the revenue and other reserves of the Parent Company to ascertain the full extent to which these may be distributable. This information is included on page 196.

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 Deloitte Academy, 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 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 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.

The Committee also undertakes an Audit Committee effectiveness self-assessment questionnaire each year. Audit Committee specific training plans and audit and assurance policies were two areas which the Committee agreed to consider further.

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 140) and employment of ex-audit firm personnel. It also reviewed the Directors' conflicts of interest register. Further information about conflicts of interest may be found on page 141.

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 year ended 25 December 2021 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.

The Committee Chair 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 2022 Annual General Meeting.

Recent and relevant financial experience

Andrew Cripps qualified as a Chartered Accountant with KPMG 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 and that the thorough inductions provided to the Committee members and the opportunities for them to meet with senior management and Executives further enhanced their working knowledge of the way the Company operates and the sectors it spans.

External auditor*

External auditor	Deloitte LLP (Deloitte)
External auditor tenure	20 years
Lead audit partner	Claire Faulkner
Lead audit partner tenure	5 years (of a 5 year cycle)
New external auditor to be engaged	2022
Total fees paid to auditor in the year	£0.8m (Non-audit fees accounted for £0.1m of the total fee)

* The information above is correct as at 25 December 2021.

External audit tender

Following a comprehensive external audit tender process during the year, the Audit Committee made a recommendation to the Board to appoint KPMG LLP as the Group's external auditor from 2022. The Board will recommend KPMG's appointment to its shareholders at the 2022 Annual General Meeting. A case study on the external audit tender process can be found on page 138.

Case study

External Audit Tender Process

Having retained the same audit firm, Deloitte LLP, for the previous 20 years, the Audit Committee decided to run a tender process for a new external auditor before the Statutory Auditors and Third Country Auditors Regulations 2017 obliged the Group to do so in 2023. The Committee was aware that best practice was to coincide the change of auditor with the end of the current engagement partner's five-year term and decided early in 2021 that it would not take advantage of the flexibility afforded by the FRC due to the impact of COVID-19 to extend auditor and engagement partners' terms by one year.

The Committee were particularly mindful of the key statutory and regulatory requirements set out by the Competition and Markets Authority (CMA), Financial Conduct Authority (FCA) and Financial Reporting Council (FRC) applicable to the external auditor tender process and received legal advice in respect of these at the outset of the process.

2019

The Audit Committee identified the key experience required of a new auditor, including experience of FTSE 100 audits, capital market transactions and cross border audits in view of the expected growth of the Group over the appointment period (up to ten years). These requirements were compared with the full range of audit firms, including those outside of the 'Big 4'. Once a short-list of firms with the requisite experience had been established, management was tasked with ensuring that none of these firms were offered new work which would potentially compromise their independence as prospective auditors.

2020

Having identified two preferred audit firms for the full tender process, presentations were made by the Group to each firm. The firms were requested to propose three potential engagement partners for evaluation. It was communicated to each of the audit firms that the Audit Committee's preferred process was first to get to know and select potential engagement partners from each firm, followed by a presentation of information relevant to the audit and due diligence process concluding with final proposals and face to face presentations. The tender process was paused during COVID-19 restrictions.

2021

February

An update on the tender process was provided to the Audit Committee. It was agreed that Debbie White would join the Committee Chair in the detailed selection and evaluation process for additional non-executive input.

Each firm submitted three potential engagement partners who were evaluated using a pre-agreed evaluation list.

Subsequent to the February Audit Committee meeting, and having confirmed their independence, a tender timetable was agreed with the shortlisted audit firms. Non-disclosure arrangements were put in place and request for proposals (RFPs) issued by the Group.

A data room was populated and was made available to the two audit firms ahead of management presentation meetings.

May

Each prospective audit partner met with senior management and all members of the Board ahead of the final evaluations.

Clear directions were provided for written proposals to the Committee to include:

- Explanation of approach to independence
- Audit approach and use of technology
- Team structure, continuity and succession planning
- Materiality assessment
- Assessed key audit risks
- Approach to controls, use of Internal Audit
- Approach to technical accounting issues
- Approach to regulatory and disclosure compliance
- Reporting to the Audit Committee
- Approach to transition from the incumbent auditor
- Assurance of professional scepticism, challenge and highest audit quality

June

The Audit Committee considered the written proposals and presentations from each of the tendering audit partners at an additional Audit Committee meeting. After careful consideration, the Audit Committee concluded that both audit firms were suitable for appointment but that the Committee's preferred auditor was KPMG LLP.

KPMG have been shadowing Deloitte during the 2021 audit to familiarise themselves with Company processes as part of the wider transition arrangements put in place. Shareholders will be asked to approve KPMG's appointment for the 2022 audit at the AGM in 2022.

Audit Committee report continued

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 during 2021, 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 2021 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 the fees paid during the year to Deloitte may be found in the table on page 137 and in note 5 to the consolidated financial statements (page 158).

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 Deloitte 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 Deloitte.
- 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

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 and updated 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.

The only non-audit services provided by Deloitte in the year was their review of the half-yearly financial report. No advisory work has been requested from the auditor during the previous four years.

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 are 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). 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 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 2020 Annual Report and Accounts, work is underway to review our 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. Phase 1 of this project was delivered in 2020.

Good progress in delivery of the project continued throughout 2021 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 White paper 'Restoring Trust in Audit and Corporate Governance' although it is likely that this will guide prioritisation and activity for 2022.

Internal audit

The internal audit team has continued to develop its capabilities during the year. This includes continued development of data analytics and systemisation of controls. It has communicated an updated Internal Audit Charter to management and thereby refreshed 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.

In previous years, the Audit Committee has commissioned an external assessment of the internal audit function every five years in order to assess the performance and effectiveness of the Internal Audit department. The last external assessment was undertaken by Grant Thornton in 2017.

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.

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 EQA readiness assessment will be undertaken 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.

Cyber and information security risk

The risk of a cyber security incident is considered to be one of the Group's principal risk. More information on this risk can be found on page 44.

An update on cyber and information security was presented to the Committee by the Head of Information Security and the Director of Infrastructure and Service Delivery at the Committee meeting in April.

The Committee noted that, in addition to the development of technical controls to mitigate the increasing risk of a cyber security incident, a strategy for Security Governance had been implemented to ensure clear direction to the business. The promotion of security risk management through improved business engagement and targeted training were other key areas developed during the year. Biannual training on cyber security is completed by all employees on a rolling basis.

There were no significant information security breaches during the year and there had 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.

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

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

23 February 2022