

## Report of the Audit Committee

### Role and Composition of the Audit Committee

The Board has delegated responsibility for, reviewing its financial reporting arrangements and internal control principles, together with monitoring the relationship with the Company's external auditors, to the Audit Committee.

The main responsibilities of the Audit Committee include:

- Monitoring the integrity of the Group's Financial Statements and reviewing significant financial reporting judgements contained in them;
- Reviewing the Group's internal controls and risk management systems;
- Monitoring and reviewing the effectiveness of the Group's internal audit function;
- Making recommendations to the Board in relation to the re-appointment or, if considered appropriate, removal of the external auditors and approving the remuneration and terms of engagement of the external auditors;
- Monitoring the independence and objectivity of the external auditors and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements
- Determining policy for the engagement of the external auditors to supply non-audit services;
- Reporting to the Board, identifying any matters in respect of which it considers that action is needed and making recommendations as to the steps to be taken.

The Audit Committee consists entirely of Non-executive Directors. It met 4 times during the year.

The external auditors attend these meetings as required and have direct access to the committee at all times. The Finance Director, and Head of internal audit attended each meeting and other Group executives attend these meetings as and when required. The committee also met the external auditors without management present to discuss matters relating to its remit and any issues arising from the audit generally.

The committee also periodically meets the Head of internal audit independent of Group management.

The Head of internal audit reports directly to the chairman of the Audit Committee and both internal audit and external auditors have direct access to the committee chairman at all times.

### Functions of the Audit Committee

The committee discharges its responsibilities in the following manner:

- Prior to their release, it reviews the preliminary full year financial results announcements and Annual Report and questions the external auditor, the internal auditors and the Group Finance Director on these. It compares the results with management accounts and budgets, and reviews reconciliations between these and final results. It receives a report from the external auditors at that meeting identifying any accounting or judgemental issues arising from the audit requiring its attention.

- It reviews Group accounting policies on an ongoing basis.
- Prior to their release, it reviews the interim results announcements and Interim Report. It compares the results with management accounts and budgets,
- It reviews the performance of the external auditors, considering the quality of the reports and advice provided to the committee. It also considers their level of understanding of the Group's business, the objectivity of the auditors' views of the Group's internal controls and their ability to complete the audit within specified deadlines.
- It reviews the external auditors' work plan both before and after the audit. It reviews audit findings, adjustments, management letters and recommendations together with monitoring action taken by management as a result of any recommendations.
- It reviews and approves the annual internal audit plan, and carries out a regular assessment of the resources available to deliver on the plan in a timely fashion.
- It reviews reports from the internal auditors and management responses to such reports together with action points arising from them.
- It reviews relevant reports and recommendations from external consultants on an exception basis.
- It reviews annually the Group risk analysis and management action together with strategy to deal with identified risks.

## Auditor Objectivity and Independence

The auditors are permitted to provide non-audit services that are not, or are not perceived to be, in conflict with auditor independence, provided that they have the skills and integrity to carry out the work and are considered subject to Group policy to be the most appropriate to undertake such work in the best interests of the Group. The Audit Committee ensures that the independence of the external audit is not compromised by:

- Seeking confirmation from the external auditors that in their professional judgement they are independent from the Group;
- Obtaining an account of all relationships between the external auditors and Group;
- Reviewing the economic importance of the Group to the external auditors by monitoring the audit fees as a percentage of total fee income generated from the relationship with the Group in light of ethical guidelines set down by the Institute of Chartered Accountants in Ireland.

## Internal Control

The Board of Directors has overall responsibility for the Group's system of internal control and has delegated responsibility for the implementation of this system to executive management. This delegation ensures the embedding of the system of internal control throughout the Group's operations, and ensures that the organisation is capable of responding quickly to evolving business risks, and that significant internal control issues, should they arise, are reported quickly to appropriate levels of management. Such a system of internal control by its nature is designed to

manage rather than eliminate the risk of failure to achieve business objectives, and can provide reasonable, but not absolute, assurance against material misstatement or loss.

The key elements of the Group's system of internal control include the following:

- a clearly defined organisation structure with formal lines of authority, accountability and responsibility;
- a formal schedule of matters specifically reserved for decision by the Board;
- regular assessment of major business, investment and financing risks;
- a comprehensive annual budgeting process and a review by the Board of actual performance compared with budget on a monthly basis;
- clearly defined and appropriate levels of authorisation for all transactions;
- the Audit Committee and the internal audit function;
- the chairman of the Audit Committee reports to the Board on significant issues considered by the committee, and the minutes of its meetings are circulated to all directors;
- Systematic monitoring and assessment of risk areas through management and Board reviews.

The Directors confirm that they have conducted an annual review of the effectiveness of the system of internal control up to and including the date of approval of the financial statements.

The process used by the Board for this review includes:

- The review by the Audit Committee of the external and internal auditors' work plans, reports and internal control recommendations;
- Review by the Board and Audit Committee of the specific identified risk areas;
- Consideration of reports from management, internal and external auditors on the system of internal control and on material control weaknesses;
- Discussions with management on the implementation of strategies on any internal control and risk areas identified;
- Consideration by the Board on the impact of relevant legislation on the Group.

The approach by the Board is proactive in identifying possible weaknesses and obtaining the relevant degree of assurance on specific areas of internal control and not merely reporting by exception.

### Code of Conduct

The Group has a Code of Conduct, setting the standard by which all employees across the Group are expected to conduct themselves. The Code of Conduct is available on the Group's website [www.kingspan.com](http://www.kingspan.com). Procedures have been adopted and notified to all employees, by which staff are encouraged to raise any concerns about possible improprieties or breaches of the Code of Conduct in any area of the Group. All breaches are obliged to be reported to the head of internal audit, who reports to the Audit Committee.

## **Risk Assessment**

The Directors confirm that the Group's ongoing process for identifying, evaluating and managing its significant risks is in accordance with Corporate Governance requirements (including Turnbull guidance for Directors on the Combined Code). The process has been in place throughout the accounting period and up to the date of approval of the Annual Report and Financial Statements, and is regularly reviewed by the Board.

As part of the annual risk assessment, the Audit Committee assesses the risks to the business under the following headings: business; financial; compliance; human resources; operational; inventory; Research & Development / Quality Control; purchasing; sales; fixed assets; IT; and other. The principal risks facing the business identified by the Committee are set out in the Business Risk Analysis in this Annual Report.

## **Compliance**

This report has been prepared in accordance with the requirements of Section C of the 2006 FRC Combined Code on Corporate Governance, as appended to the Listing Rules of the Irish Stock Exchange and the UK Listing Authority.

*Tony McArdle*

*Chairman, Audit Committee*