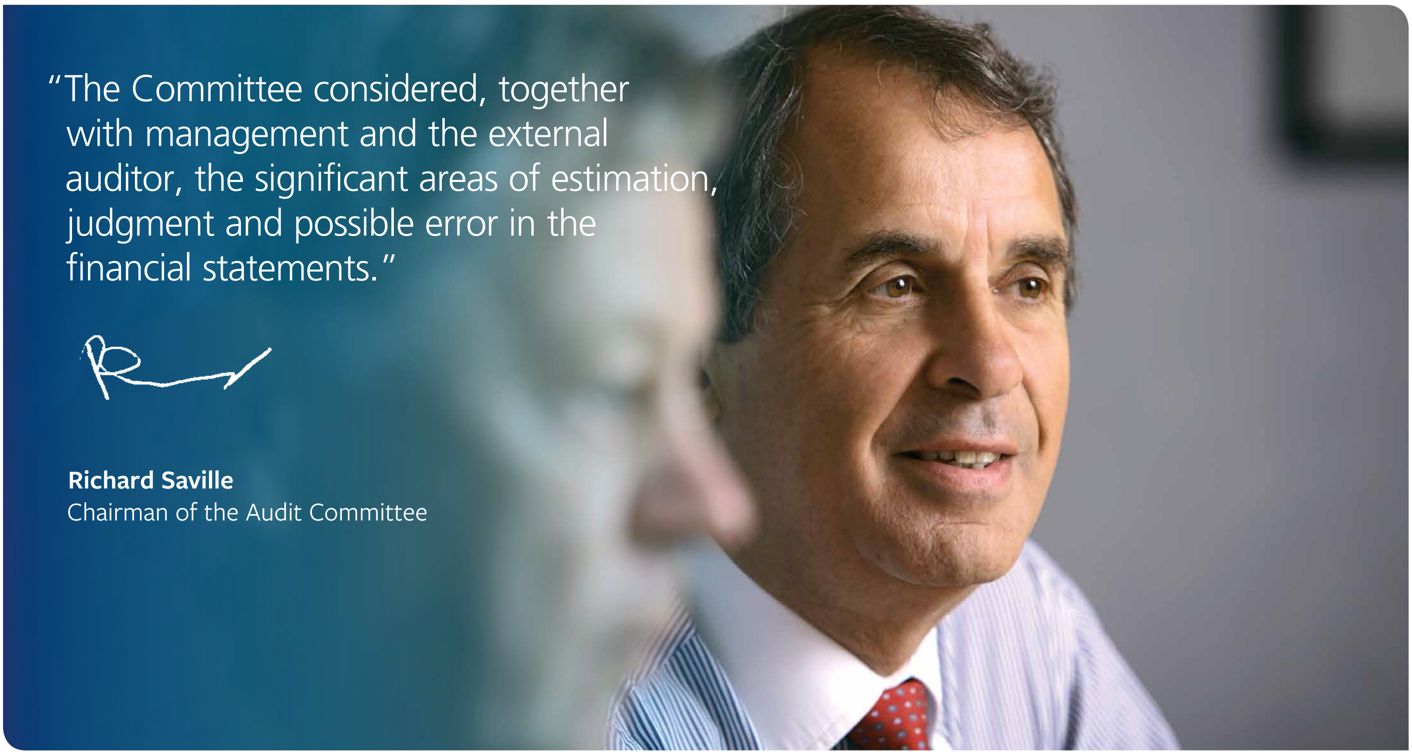
Governance

AUDIT COMMITTEE REPORT

Statement by the Chairman



Dear Shareholders

I am pleased to present the Audit Committee's report for the year ended 30 June 2018. The members of the Committee are set out below. The Group Chairman, Chief Executive, Group Finance Director and Group Financial Controller usually attend the meetings of the Committee. In addition, the external auditors attended two meetings during the year and the members of the Committee met with the external auditors on one occasion without members of the management team being present. The Committee met three times in the year and a record of the meeting attendance by Committee members is set out on page 38.

Richard Saville
Chairman of the Audit Committee

Audit Committee membership

The Audit Committee members who served during the year were:

- Richard Saville (Chairman)
- John Pither
- Philip Gwyn
- David Armfield

The Board considers that Richard Saville has relevant, recent financial experience.

The Committee's main duties are as follows:

- monitoring and reviewing the integrity of financial reporting process and reviewing the financial statements, including the appropriateness of judgments and estimates taken in preparing the financial statements and preparations for the introduction of new accounting standards;
- monitoring and reviewing the effectiveness of the group's internal financial controls including approval of the scope and review of the results of internal audit activities;
- monitoring and reviewing the effectiveness of the company's part-time internal audit function;
- monitoring and reviewing the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- making recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- to review any proposal for the external auditor to supply non-audit services, in view of group policy and relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and
- to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

Activities of the Committee in the 2017/18 financial year

The main activities of the Committee during the year were:

- reviewing the interim and full year results announcements and financial statements, with particular focus on the key estimates and judgments taken by management in the preparation of those statements and the external auditor's comments in those areas;
- review and approval of the audit plan of the external auditor, including the scope of the work, the key areas of focus in terms of audit risk and judgment, and the basis on which the auditor assesses materiality;
- considering the effectiveness of the external audit and the independence of the auditors, and planning the approach to the forthcoming audit tender process;
- review and approval of the plan and scope of internal audit work, including consideration of internal audit reports issued during the year and discussion of the key matters and improvement points arising from those audits with management; and
- review of management's preparations for the introduction of IFRS 15, "Revenue Recognition", in particular its likely application to accounting for construction contracts; IFRS 9, "Financial Instruments"; and IFRS 16, "Leases". IFRS 9 and IFRS 15 will apply to the group's financial statements for the 2018/19 financial year onwards, and IFRS 16 for the group's 2019/20 financial year onwards.

Significant issues considered in relation to the financial statements

The Committee considered, in conjunction with management and the external auditor, the significant areas of estimation, judgment and possible error in preparing the financial statements and disclosures, discussed how these were addressed and approved the conclusions of this work. The principal areas of focus in this regard were:

(i) Revenue and profit recognition on construction contracts

Revenue and profit recognition on construction contracts that span more than one accounting period is an inherently judgmental area, involving estimation of the percentage of contract completion and estimates of costs to complete the work, as described in the accounting policy note on page 67. Having reviewed the contract accounting judgments taken at the year end with management and the external auditors, the Committee was satisfied with the level of revenue and profit recognised on construction contracts for the financial year.

(ii) Defined benefit pension schemes' valuation

As described in the risk review on pages 28 and 29, Alumasc has relatively significant legacy defined benefit pension obligations in the context of the overall size of the group. Therefore, relatively small changes to market assumptions (particularly the discount rate and inflation rate) and actuarial assumptions used to value defined benefit pension obligations under IAS 19 can have a material impact on the group's Consolidated Statement of Financial Position and Consolidated Statement of Comprehensive Income. Further details are given in note 21 to the consolidated financial statements. Having reviewed the valuation assumptions adopted by management, in conjunction with actuarial advice received and the review of those assumptions by the external auditors, the Committee was satisfied that the group balance sheet reflects an appropriate valuation of the group's pension obligations using IAS 19's valuation methodology.

(iii) Valuation of acquired assets and liabilities of Wade International Limited

The Committee reviewed the acquisition accounting for Wade International, including the judgments taken in fair valuing the tangible and intangible assets of the business at acquisition. These judgments were taken based on the advice of independent valuation experts.

(iv) Accuracy and valuation of inventory

All of the group's businesses carry material levels of inventory, whether manufactured in-house or bought-in. The accuracy of the records of physical inventory on hand and the valuation of that inventory, including judgments as the value of manufacturing cost to be absorbed into the inventory valuation and the net realisable value particularly of old and slow-moving inventory, can affect both the group's Consolidated Statement of Financial Position and its Consolidated Statement of Comprehensive Income. Inventory records, including an analysis of trends and the evolution of management judgments on valuation are reviewed by the Executive Directors in monthly meetings with operating company management and in associated Board reports. Internal audit has a particular focus on checking the accuracy of the inventory records through attendance at stock counts and reviewing the application of judgments taken by local management surrounding valuation. Physical stock counts are held at the financial year end and half year end, and more regularly when needed. The Committee reviews regular reports from executive management, internal audit and the results of the external audit to satisfy itself that inventory values across the group are materially accurate.

Governance

AUDIT COMMITTEE REPORT continued

Assessment of the effectiveness of external audit

The Committee assesses the performance of KPMG both through formal Committee meetings, KPMG's reports to the Committee and more informal interaction throughout the year. The Committee also receives structured feedback from senior group level and operational management on the robustness, value added and efficiency of the external audit.

Having considered this information, the Committee concluded that the external audit continues to operate effectively and that KPMG continue to be effective in their role.

Assessment of the independence of the external auditor

The group's policy on the independence of auditors is consistent with ethical standards published by the Financial Reporting Council.

The group last changed its external auditors nine years ago, and the Committee assesses the effectiveness and independence of the external auditor every year.

Any non-audit services proposed to be carried out by the external auditor are discussed and approved in advance by the Committee. During the financial year under review KPMG carried out non-audit advisory services relating to Alumasc's forthcoming adoption of IFRS 15, "Revenue Recognition". The fee for this work was £8k and was approved by the committee on the basis it was not significant in the context of the overall audit fee. No non-audit services were provided by KPMG in the prior financial year.

In accordance with best practice and professional standards, KPMG rotated the audit partner responsible for the audit four years ago, when the original audit partner had served for five years. The current audit partner had not previously been involved in providing any audit or non-audit services to Alumasc.

KPMG have confirmed to the Committee that they consider themselves to be independent within the meaning of regulatory and professional requirements.

In view of all the above, the Committee remains satisfied with the independence of the external auditor.

Re-appointment of the external auditor

The audit for Alumasc's financial year ended 30 June 2018 was KPMG's tenth. Therefore under current regulations the external audit will be put out to tender before the 2018/19 audit process commences. KPMG will be invited to re-tender for the work.

Effective internal control and risk management

The Alumasc Board as a whole acknowledges that it is ultimately responsible for the group's system of internal control and for reviewing its effectiveness. The system is designed to be robust in its management of the risk of failure to achieve business objectives. This risk, however, cannot be wholly eliminated and therefore the system can only provide reasonable and not absolute assurance against the risk of material misstatement, fraud or loss.

The group has an ongoing process for identifying, evaluating and managing the significant risks faced by the business. The process was in place during the year and remained in place on the date that the Annual Report and financial statements were approved by the Board. The main elements of the group's internal control process are as follows:

(i) Risk management

Risk management is a continuing activity throughout the year, dealt with through the Board meetings of operating companies. In addition, a formal business risk review exercise is conducted every year at each operating company and for the group as a whole. This identifies the most important risks, their likelihood of occurrence and possible business and financial implications and the effectiveness of mitigating controls. A group level summary of these risk reviews is provided on pages 28 and 29. Each operating company has implemented procedures for controlling the relevant risks of their business.

Based on their attendance at the Board meetings of each operating company, the Executive Directors report periodically to the Board on the risk management processes that have been in place during the year and the effectiveness of the level of control in managing the identified risks. The Board is able to confirm that these procedures are ongoing.

(ii) Financial reporting and monitoring
The Board receives regular financial reports, including monthly management accounts, rolling re-forecasts, annual budgets and three-year plans. These procedures are intended to ensure that the Board maintains full and effective control over all financial issues. An Executive Committee, comprising the group's Executive Directors and the Divisional Managing Directors of the group's operating segments, reviews trading activities and addresses matters of common interest with regard to safety, strategic development, performance, risk and other matters of mutual group interest.

Day to day management of the group companies is delegated to operational management with a clearly defined system of control, including:

- An organisational structure with an appropriate delegation of authority within each company;
- The identification and appraisal of business and financial risks both formally, within the annual process of preparing business plans and budgets, and informally, through close monitoring of operations;
- A comprehensive financial reporting system within which actual results are compared with approved budgets, re-forecasts and the previous year's figures on a monthly basis and reviewed at both local and group level; and
- An investment evaluation procedure to ensure an appropriate level of scrutiny and approval for all significant items of capital expenditure.

(iii) Internal Controls Assurance
The Audit Committee on behalf of the Board has reviewed during the year the effectiveness of the system of internal financial control from information provided by management, the group's external auditors and the results from internal audits. The Board as a whole assessed internal control more generally, including the key risks affecting the group in the delivery of its long-term strategies, as summarised on pages 28 and 29. No material weaknesses in internal control were identified in the year.

(iv) Internal Audit
The Committee's view is that the size and complexity of the group and the close involvement of the Executive Directors make it unnecessary for Alumasc to have a dedicated internal audit function, although part of the Group Financial Controller's role, and that of her team, is to carry out internal audits in each of the group's principal operating locations each year. This position is kept under annual review by the Committee.

The principal focus of this internal audit work is to check the existence and effective operation of key internal financial controls.

The Committee reviews and approves the proposed scope of internal audit activities each year, and ensures that key risk areas are covered, and that agreed recommendations arising from previous internal and external audits are re-reviewed to assess whether they have been implemented.

Whistleblowing policy
The group has a Whistleblowing policy, which provides a formal mechanism whereby every group employee can, on a confidential basis, raise concerns over potential malpractice or impropriety within the group.

Bribery and Corruption policy
The group has in place a policy with regards to compliance with the Bribery Act 2010. The group's Bribery and Corruption policy and guidelines reflect the Directors' zero tolerance approach to bribery and corruption of all kinds.

This policy has been cascaded down into the operating companies with relevant training provided. Any matters of particular concern, whether arising from due diligence or otherwise with regard to related parties as defined in the Bribery Act 2010, are raised and discussed at monthly operating company Board meetings.

Code of Conduct
The group has in place a Code of Conduct, setting out the standards of business practice that the group expects from its executives and employees. This policy is subject to periodic review to ensure it reflects the operation of the group and the business environment in which it operates.

Copies of this policy, the Whistleblowing policy and the Bribery and Corruption policy can be found on the group's website www.alumasc.co.uk.

Going concern and longer-term viability
The Committee is satisfied that the group has adequate resources to continue for the foreseeable future for the reasons given on page 67 and recommends to the Board the adoption of the going concern basis of accounting. This view is further supported by the viability statement on page 30.

Richard Saville
Chairman of the Audit Committee