

Audit Committee Report



Statement from the Chair of the Audit Committee

Dear Shareholders

I am pleased to present the Audit Committee's Report for the year ended 30 June 2023, which sets out the responsibilities and work carried out by the Committee during the year.

The Committee's main duties are as follows:

- monitoring and reviewing the integrity of the financial reporting process and reviewing the full-year financial statements, interim statements and any trading updates provided to the market, including the appropriateness of judgements 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 resourcing, scope and review of the results of the Company's internal audit activities;
- 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;
- reviewing 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
- reporting any matters to the Board in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

Meeting attendance

Details of the Committee members who served during the year can be found below.

Members	Attended/ eligible to attend
Karen McInerney (Chair)	4/4
Vijay Thakrar	4/4
Stephen Beechey	4/4

The Group Chief Executive, Group Finance Director, Group Financial Controller and the external auditors usually attend the meetings of the Committee by invitation. The Committee met four times in the year, all of which were attended by the external auditors, and a record of the meeting attendance by Committee members is set out above. Following each Audit Committee meeting that the external auditors attend, the Committee meets with the auditors without members of the management team being present.

Activities of the Committee in the 2022/23 Financial Year

The main activities of the Committee during the year were:

- reviewing and challenging management's forecasts and scenarios, its liquidity position and the appropriateness of adopting a going concern basis in these financial statements;
- monitoring the integrity of the interim and full-year results announcements and financial statements, trading statements and any other announcements containing financial information, and considering the application of key accounting policies and accounting standards and the key estimates and judgements taken by management in the preparation of those statements and the external auditor's comments in those areas;
- reviewing the Annual Report to ensure it is fair, balanced and understandable, and recommending its approval to the Board;
- reviewing and approving the audit plan of the external auditor, including the scope of the work, the key areas of focus in terms of audit risk and judgement, and the basis on which the auditor assesses materiality; and assessing their independence;



The Committee continues to review and challenge management's key estimates and judgements."

Karen McInerney
Chair of the Audit Committee

- reviewing and approving the plan and scope of internal audit work, considering internal audit reports issued during the year and discussing key matters and improvement points arising from those audits with management;
- interaction with the Financial Reporting Council following their enquiries into the 2022 Annual Report and Accounts;
- reviewing and approving the revised anti-fraud policy; and
- reviewing the plan for the final stage of implementation of the Group's Enterprise Resource Planning (ERP) upgrade, to ensure continuity of accounting records and financial controls.

Activities of the Committee in the 2023/24 Financial Year

The additional objectives of the Committee during the coming year are:

- reviewing the scope of the internal audit work programme and its resourcing; and
- receiving progress reports on the Group's Enterprise Resource Planning (ERP) upgrade, to ensure adequate financial controls remain in place.

Financial Reporting Council (FRC) review

In May 2023, the Alumasc Group received a number of queries from the Financial Reporting Council (FRC) concerning the disclosures relating to the discontinued operations in the Group's 2022 Annual Report and Accounts. As a result of the review, and as explained in the Accounting Policies, the Group's Consolidated Statement of Financial Position for 2022 has been restated to present the assets and liabilities of the discontinued operation as separate held for sale items within the Statement of Financial Position.

The Committee reviewed all correspondence between the Alumasc Group and the FRC and also discussed the matter with our external auditor. The FRC's enquiries, which were limited to a review of the Group's 2022 Annual Report and Accounts, are now complete. The FRC review does not benefit from detailed knowledge of our business or an understanding of the underlying transactions entered into, and, accordingly, the review provides no assurance that the Annual Report and Accounts are correct in all material respects.

Significant areas of judgement considered in relation to the financial statements

The Committee considered, in conjunction with management and the external auditor, the significant areas of estimation, judgement 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) Defined benefit pension scheme valuation

As described in the risk review on pages 57 and 60, 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 23 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 Statement of Financial Position reflects an estimated valuation of the Group's pension obligations that is consistent with IAS 19's valuation methodology.

(ii) Accuracy and valuation of inventory

The Group's businesses carry significant levels of inventory, both manufactured in-house and bought-in. The accuracy of the records of physical inventory on hand and the valuation of that inventory, including judgements as to 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 profit for the year. Inventory records, including an analysis of trends and the evolution of management judgements on valuation, are reviewed by the Executive Directors in monthly meetings with operating company management and in associated board reports. Internal audit has particular focus on checking the accuracy of the inventory records through attendance at stock counts and reviewing the application of judgements 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.

(iii) Going concern

The Committee has reviewed and challenged management's base case trading and cashflow scenarios covering the period to September 2024, including stress tested and reverse stress tested scenarios as set out on page 105. The Committee has also discussed these issues with the external auditors to seek their opinion. In light of these actions and taking into account the comments on page 105, the Committee did not uncover any material issues or concerns in connection with the above matters.

Assessment of the effectiveness of external audit

The Committee assessed the performance of Crowe both through formal Committee meetings, Crowe's reports to the Committee and more informal interaction since their appointment. The Committee also received structured feedback following the year end audit from senior Group level and operational management on such matters as to Crowe's objectivity, proficiency, resourcing and audit strategy and planning.

Having considered this information, the Committee concluded that the external audit continues to be robust and effective.

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.

Crowe were appointed as the Group's external auditors in May 2022. The Committee assesses the effectiveness and independence of the external auditor every year.

Audit Committee Report continued

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 and following their appointment as auditors, Crowe did not carry out any non-audit work.

Crowe 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 is satisfied with the independence of the external auditor.

Appointment and re-appointment of the external auditor

The audit for Alumasc's financial year ended 30 June 2023 was Crowe's second following their appointment in May 2022. Resolutions are being put to the AGM to be held in October 2023 to recommend their re-appointment for the 2023/24 financial year.

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 56 and 60. Each operating company has implemented procedures for controlling the risks relevant to 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, quarterly re-forecasts, annual budgets and three-year plans. These procedures are intended to ensure that the Board maintains full and effective control over material 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 Health & 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. Capital expenditure plans are discussed during the annual budget process and any project costing over £250,000 requires Board approval.

(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 22 and 23. 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, bearing in mind the size of the Group at that time, the complexity of its systems and processes, and whether the experience of the staff carrying out internal audit visits is appropriate for the areas under review.

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. The Committee has requested future work to be focused on higher risk areas that could have a material business or financial impact.

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.

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.

Anti-bribery policy

The Group has in place a policy with regards to compliance with the Bribery Act 2010. The Group's Anti-bribery policy and guidelines reflect the Board's 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.

Fraud policy

During the year, the Group implemented a revised anti-fraud policy. This sets out the Group's expectations of its staff, to act in accordance with the Group's code of conduct and to remain vigilant and fraud-aware; its commitment to maintaining control procedures which aim to prevent, identify, mitigate and/or deter fraud, and its obligation to investigate and, if necessary, take action against individuals or organisations perpetrating fraud.

Tax policy

The Group has in place a tax policy, which sets out the Group's desire to conduct its operations in a tax-efficient manner in compliance with all relevant legislation, to engage with tax authorities in an honest and transparent way. In accordance with this policy and its Code of Conduct, the Group operates a zero-tolerance policy towards tax evasion and the activities which facilitate it. The Group is committed to ensuring its businesses meet the compliance obligations of the UK corporate criminal offences legislation regarding the failure to prevent the facilitation of tax evasion.

Copies of the Group's Code of Conduct and associated policies can be found on the Group's website www.alumasc.co.uk.



Karen McInerney
Chair of the Audit Committee
5 September 2023