AUDIT COMMITTEE REPORT

Fair, balanced and understandable

The committee was provided with, and commented on, a draft copy of the annual report for the year ended 30 March 2024. At the request of the board, the committee also considered whether the annual report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy. To enable the board to make this declaration, the committee received a paper from management detailing the approach taken in preparing the annual report. The committee is satisfied that, taken as a whole, the annual report and accounts is fair, balanced and understandable.

In carrying out the above processes, key considerations included ensuring that there was consistency between the financial statements and the narrative provided in the front half of the annual report (and that the use of alternative performance measures was appropriate and clearly articulated); that there is a clear and well-communicated link between all areas of disclosure; and that the strategic report focused on the balance between the reporting of weaknesses, difficulties and challenges, as well as successes, in an open and honest manner. In addition, the external auditor considered the consistency between the narrative reporting in the annual report and the financial statements.

Risk management and internal control

The board as a whole, including the audit committee members, considers the nature and extent of the Group's risk management and internal control framework and the risk profile that is acceptable in order to achieve the Group's strategic objectives.

Details of the Group risk management and internal control processes and its principal and emerging risks are set out in the risk management section of the strategic report on pages 92 to 104. As a result, it is considered that the board has fulfilled its obligations under the Code to carry out a robust assessment of the Company's emerging and principal risks.

Whistleblowing

The Group operates a comprehensive whistleblowing policy. Accordingly, staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The committee reviews adherence with this policy on an ongoing basis. No disclosures were made in the year.

Viability statement

The committee has undertaken a detailed assessment of the viability statement and recommended to the board that the directors could have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment. The viability statement can be found on page 52 of the strategic report.

Financial reporting and significant accounting judgements

The committee assesses whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. The committee reviews accounting papers prepared by management, which provide details on the main financial reporting judgements.

Consistent with last year, 'Contract valuation, revenue and profit recognition', is classified as a significant accounting risk and this year, following the acquisition of Voortman Steel Construction in April 2023, the accounting treatment of the acquisition is also classified as a significant accounting risk.

Contract valuation, revenue and profit recognition

The committee reviewed and challenged the report of the Chief Financial Officer that set out the main contract judgements associated with the Group's significant contracts. The significant areas of judgement include the timing of revenue and profit recognition, the estimation of the recoverability of contract variations and claims, the estimation of future costs to complete and the estimation of claims received by the Group.

The external auditor performed detailed audit procedures on this accounting risk and reported their findings to the committee. The committee was satisfied that this matter had been fully and adequately addressed by management, appropriately challenged by the external auditor and that the disclosures made in the annual report were appropriate.

Other judgements

The committee considered management's classification of non-underlying items and the consistency of application of the Group's accounting policy. The committee was satisfied that the legacy employment tax charges and the asset impairment charge in relation to the exit of the Sherburn lease meet the necessary criteria to be recognised as non-underlying.

In addition, the committee considered a number of other judgements, which have been made by management. These include going concern and viability and the valuation of pension scheme liabilities.

External auditor independence and effectiveness

KPMG has acted as the Group's external auditor for a period of nine years. The committee considers the reappointment of the external auditor, including the rotation of the senior statutory auditor, annually. This also includes an assessment of the external auditor's independence and an assessment of the performance in the previous year, taking into account detailed feedback from directors and senior management across the Group.

The committee also assesses the effectiveness, independence and objectivity of the external auditor by, amongst other things:

- considering all key external auditor plans and reports;
- having regular engagement with the external auditor during committee meetings and ad hoc meetings (when required), including meetings without any member of management being present;
- the chair of the committee having discussions with Craig Parkin, the senior statutory auditor, ahead of each committee meeting; and
- considering the external audit scope, the materiality threshold and the level of audit and non-audit fees.

Following this assessment of the external audit process, the committee agreed that the audit process, independence and quality of the external audit were satisfactory. The committee will continue to assess the performance of the external auditor to ensure that they are satisfied with the quality of services provided.

The committee has recommended to the board that a resolution proposing the appointment of KPMG as external auditor for 2025 be put to the shareholders at the forthcoming AGM.

External audit tender for 2026

As previously reported, KPMG were selected as the Group's auditor for the year ended 31 March 2016, following a competitive tender process, and were appointed at the AGM on 2 September 2015. Under the current tenure rules, the last year that KPMG can audit the financials without a formal competitive tender process having taken place is 2025.

Accordingly, the committee has determined that it is in the best interests of shareholders to commence a competitive tender of external audit services, with the tender to take place in the second half of 2025, following which a resolution would be submitted to the AGM in 2026 recommending the appointment of the successful candidate. There are no contractual obligations that restrict the committee's choice of external auditor. KPMG, alongside other firms, will be invited to tender.

Internal audit

The Group's internal audit function was outsourced to PwC during the year. The committee is responsible for reviewing the role and effectiveness of the internal audit function by monitoring the results of its work and the responses of management to its recommendations. The scope of PwC's work focused on key financial controls and non-financial reviews covering areas of perceived higher business risk. Results and management actions arising from reviews undertaken by PwC in the current year were also discussed in detail at each of the committee's meetings.

PwC have stepped down from the role since the year-end as they wished to tender for the external auditor role and their regulatory rules required them to do so. Following a procurement exercise EY have now been appointed as the Group's internal auditor for 2025.

Non-audit services

The Group's policy on the engagement of the external auditor for non-audit-related services is designed to ensure that the provision of such services does not impair the external auditor's independence or objectivity. Under no circumstances will any assignment be given to the external auditor when the result would be that:

- as part of the statutory audit, it is required to report directly on its own non-audit work;
- it makes management decisions on behalf of the Group; or
- it acts as advocate for the Group.

This policy is compliant with the Code and with the FRC's revised Guidance on audit committees. It includes restrictions on the scope of permissible non-audit work and a cap on fees for permissible non-audit work (which may not exceed 70 per cent of the average audit fees paid in the last three consecutive years). The policy requires a competitive tender for all work with a fee over £30,000.

For work that is permitted under the policy, authority is delegated to the Chief Financial Officer to approve up to a limit of £50,000 for each assignment and there is a cumulative annual total of less than 50 per cent of that year's audit fee. Prior approval is required by the committee for any non-audit assignments over £50,000 or where the 50 per cent audit fee threshold is exceeded. No non-audit services provided by KPMG during the year ended 30 March 2024 required the approval of the committee.

Details of the auditor's fees, including non-audit fees (which comply with the Group's policy on the provision of non-audit services), are shown in note 4 to the consolidated financial statements. With the exception of the half year review, there were no other non-audit fees for 2024 or 2023.

MARK PEGLER
CHAIR OF THE AUDIT COMMITTEE

19 June 2024