# AUDIT COMMITTEE REPORT

## Introduction

**Dear shareholder**
I am pleased to report on the activities of the Audit Committee.

Members of the Committee take an active role in understanding aspects of the business and the challenges it faces and, as part of this, the Committee visited the global Shared Service Centre in Łódź, Poland during the year. This provided us with an opportunity to meet with the local leadership team and conduct a detailed review of operations.

In addition to our usual matters, including the financial results for the full year and half year and the interim management statements, applicable accounting policies and going concern assumptions, we continued to undertake in-depth reviews of key topics. These included risk management processes, the management of commodities risk and, together with the members of the Corporate Responsibility Committee, IT security.

We also considered the timing of the tender of the external audit contract. As explained in the Chief Executive's Review, implementation of the global IS/IT platform is ongoing and the Committee believes that continuity of the external auditors plays a very important role in managing risk effectively during this transition to new systems, processes and ways of working. We have therefore agreed to undertake a tender after the Board considers that the platform is operating satisfactorily across all our material operations. In the meantime, we are undertaking preliminary work to prepare ourselves and the business for the tender.

In preparation for this year's audit, I attended part of PwC's initial planning meeting where I was able to meet with members of the global audit team. The Committee collectively met the US audit partner as part of our annual programme.

I led a review of the Committee's effectiveness, supplementing the activities undertaken as part of the external Board effectiveness review, explained on page 43. Both of these reviews concluded that the Committee was functioning effectively and identified a number of areas for further action. These include: increasing the membership of the Committee; reviewing detailed scoping documents for the in-depth reviews to enhance the value gained from them; and furthering interaction with divisional senior finance management.

I look forward to meeting with shareholders at the forthcoming AGM on 24 July 2014.

**Liz Airey**
**Chairman of the Audit Committee**

Liz Airey

## Composition and constitution

The Audit Committee, which comprises three non-executive directors, oversees the Group's financial reporting and internal controls and provides a formal reporting link with the external auditors.

The Committee's terms of reference, which are reviewed annually, are available on the Company's website, www.tateandlyle.com.

## Main responsibilities of the Audit Committee

These include:

- Overseeing the Group's financial reporting process and monitoring the integrity of the financial statements and formal announcements relating to the Group's financial performance
- Reviewing significant financial reporting issues and accounting policies and disclosures in financial reports
- Reviewing the effectiveness of the Group's internal control procedures and risk management systems
- Reviewing the effectiveness of the internal audit function
- Overseeing the Group's relationship with the external auditors including the level of fees
- Reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process
- Making recommendations to the Board on the appointment or reappointment of the Group's external auditors.

## Meetings during the year ended 31 March 2014

The Committee met six times during the year and the minutes of each meeting are made available to all directors via the Board portal. Membership of the Committee and attendance during the year were as follows:

| Directors as at 31 March 2014 | Number of meetings | Number of meetings attended |
|---|---|---|
| Liz Airey[1] | 6 | 6 |
| Douglas Hurt | 6 | 6 |
| Anne Minto | 6 | 6 |

1 Committee Chairman.

All the Committee members have extensive management experience in large international organisations. It is a requirement of the Code that at least one Committee member has recent and relevant financial experience. Two members meet this requirement: Liz Airey was an investment banker and former finance director of Monument Oil and Gas plc, and Douglas Hurt is Finance Director at IMI plc and is a member of the Institute of Chartered Accountants in England and Wales.

The Chief Financial Officer; VP, Group Audit and Assurance; Group VP, Finance and Control; Executive VP, General Counsel; and representatives of the external auditors are normally invited to attend each meeting. The Chairman of the Board and Chief Executive attend meetings of the Committee by invitation. In addition, the Committee continues to enhance its exposure to the business through its programme of key topics for in-depth review, which involves operational and other key senior managers presenting to the Committee.

The VP, Group Audit and Assurance and the external auditors have direct access to, and meet regularly with, the Chairman of the Committee outside formal Committee meetings.

# AUDIT COMMITTEE REPORT | CONTINUED

## Independence of the external auditors

The Group's external auditors are PricewaterhouseCoopers LLP (PwC) and the Committee operates a policy to safeguard its objectivity and independence. This policy sets out certain disclosure requirements by the external auditors to the Committee; restrictions on the employment of the external auditors' former employees; and partner rotation. During the year, the Committee reviewed the processes that the external auditors have in place to safeguard their independence, and received a letter from the external auditors confirming that, in their opinion, they remained independent.

The policy also sets out the circumstances in which the external auditors may be permitted to undertake non-audit services. The Chief Financial Officer and Chairman of the Committee have authority to approve the provision of certain services up to £100,000 or £250,000 respectively. The Committee must approve any proposed non-audit services that exceed those thresholds. Such proposals must be justified and, if appropriate, subject to tender. In addition, the policy specifies the services which are not permitted under any circumstances, such as the provision of remuneration advice and internal audit outsourcing.

The Committee reviews the policy on an annual basis and considers quarterly reports which set out the ongoing non-audit services provided by the auditors and the fees incurred.

In April 2014, the European Parliament adopted proposals which include certain restrictions around the provision of non-audit services by the auditors and a 70% non-audit services fee cap. These proposals are likely to come into force at EU level during 2014 and the Committee will revise the policy to reflect the new requirements as they take effect in the UK.

A breakdown of the fees paid to the external auditors in respect of audit- and non-audit-related work is included in Note 8. The total amount paid in respect of the Group audit, audit of subsidiaries and joint ventures and the half-year review was £2 million and £0.2 million was paid in respect of non-audit-related services. Fees paid in respect of non-audit-related services therefore comprised 9% of the total fees paid to PwC.

## Work undertaken during the year

The Committee maintains a formal calendar of items for consideration at each meeting and within the annual audit cycle to ensure that its work is in line with the requirements of the Code. In addition to the activities outlined in the statement from the Committee Chairman, during the year and up to the date of this Annual Report, the work undertaken by the Committee fell under four main areas: financial reporting, oversight of the external auditors, oversight of the internal audit function, and internal control and risk management. The Committee's work in each of these areas is described below.

### Financial reporting

At each of its meetings during the year, the Audit Committee reviewed accounting papers prepared by management and determined, with the perspective of the external auditors, the appropriateness of key accounting policies, estimates and judgments. The significant issues that the Committee considered in relation to the financial statements for the year ended 31 March 2014 are listed below.

- **Reported and adjusted earnings**: the Committee considered management's review of reported and adjusted earnings, to ensure that significant one-off items of income and expense had been correctly classified, and that external disclosure of these items was appropriate.
- **Commodity risk**: the Group uses corn commodity contracts to manage and hedge its corn book in the US. The valuation of the corn book, which is underpinned by a number of judgments, has a material impact on the reported results of the Group. The Committee participated in a detailed information session led by both executive and local US management covering the key commodity risks and the risk management framework in place to mitigate these risks. In addition to this session, the Committee considered the work performed by the external auditors before concluding that the judgments made in determining the valuation were appropriate.
- **Retirement obligations**: a number of judgments have to be made when calculating the fair value of the Group's legacy retirement obligations. The Committee reviewed the assumptions proposed by management (reflecting advice from the Group's external actuary) which have driven a reduction in the pension and healthcare net liability (see Note 30) and considered reports from the external auditors before agreeing that the assumptions were reasonable. In addition, the Committee reviewed and agreed management's proposed accounting treatment for both the September 2013 full buy-in of the Amylum UK defined benefit pension scheme, having adopted the calculations performed by the external actuary and the December 2013 transfer of the defined benefit obligation of Tate & Lyle Netherlands BV.
- **Taxation**: the Group operates in a number of tax jurisdictions and provisioning for potential direct tax exposures with local tax authorities is underpinned by a range of judgments. The Committee reviewed the Group's principles and processes for managing tax risks during the year and reviewed the key judgments made in estimating the Group's tax charge along with the key disclosures, including a statement of tax principles, proposed to be included in the Annual Report (set out on page 26 and in Notes 11 and 29). The Committee was satisfied that the judgments made in estimating the Group's tax charge were reasonable, and that the tax disclosures to be made in the Annual Report were appropriate.

In addition to the above items, the Committee reviewed management's annual goodwill impairment assessment paper, considering future performance of the underlying divisions, including discussion of the discount rates used and forecast assumptions and sensitivities. The Committee was satisfied that no impairment charges, or reversal of impairments, were required. Separate papers on the Group's existing and emerging litigation risks were presented to the Committee and duly considered. There have been no substantive developments in any material case in the current year.

### External audit

PwC (or its predecessor firms) has been the Company's auditors since 1989. The lead audit partner is rotated on a five-yearly basis and, as set out in last year's report, the lead audit partner changed with effect from the beginning of the 2014 financial year in line with this requirement.

Following the conclusion of the audit for the year ended 31 March 2013, the Committee conducted an internal review of the effectiveness of the auditors (the last external review having been undertaken in 2010). As part of the process, the Committee reviewed the auditors' performance against criteria set at the start of the audit, together with feedback from management at Group level and at divisional level and considered the most recent public report on the inspection of PwC which was issued by the FRC in May 2013. The Committee concluded that the external audit process was operating effectively and that PwC continued to provide effective and independent challenge to management. The review identified a number of areas for process enhancements which were implemented and incorporated into the criteria set for the audit in respect of the year ended 31 March 2014.

The Code states that FTSE 350 companies should tender the provision of audit services at least every ten years or explain their approach, if different. The Competition Commission has published additional proposals that are expected to come into effect in October 2014. These require FTSE 350 companies to put their statutory audit engagement out to tender at least every ten years. In addition to this, in April 2014 the European Parliament adopted proposals which include the requirement that audit firms of all EU companies listed on a regulated market are subject to retender after ten years and rotate off after 20 years. These proposals are likely to come into force at EU level during 2014. The Committee continues to consider legal and regulatory developments in this regard.

The Committee discussed the timing of a tender on a regular basis during the financial year ended 31 March 2014. In light of the output of the effectiveness review and the ongoing implementation of the global IS/IT platform, the Committee agreed to undertake a tender after the Board considers that the platform is operating satisfactorily across all material operations. The Committee has recommended to the Board that PwC continue to act as auditors to the Group. PwC has indicated its willingness to continue in office, and a resolution that PwC be reappointed will be proposed at the AGM. As explained in the letter from the Chairman of the Committee, activities are underway to prepare the Group for the tender.

**Internal audit**

Following a competitive tender process, the Committee retained Independent Audit Limited to conduct a review of the effectiveness of the internal audit function, the last external review having been undertaken in 2010. The review concluded that the internal audit function had continued to strengthen since that time and make a significant contribution to the internal governance of the Group. A number of areas for incremental improvement were agreed and implemented, including enhancements to the function's charter and planning cycle.

**Internal control and risk management**

The Committee continued to receive and consider regular reports from management and the VP, Group Audit and Assurance on the effectiveness of the Group's risk management system. The reports from the latter included the findings from reviews of internal financial controls and actions to address any weaknesses in those controls. Throughout the year, the Committee focused in particular on the impact of the implementation of the new IS/IT platform and associated changes to the control environment, together with any potential impact on financial reporting processes. It also reviewed controls to mitigate fraud risk and the Group assurance map outlining the key risks and associated assurance processes. In addition, the Committee reviewed the output from the annual review of the effectiveness of internal financial reporting controls and then reported to the Board on that review.

As set out on page 48, the Committee undertook a detailed review of the Group's approach to managing corn and the associated hedging processes during the year. During this session the Committee considered the controls in place and how they are being enhanced with the implementation of the global IS/IT platform. The Committee will continue to keep these activities under review during the year ending 31 March 2015.

The global Shared Service Centre (the Centre) in Łódź, Poland is the principal location for handling the financial transactional activities and processes for Tate & Lyle. The Committee has monitored its development since its establishment in 2011.

In October 2013, the Committee visited the Centre and met with senior managers to understand more about the control environment in place and the progress the Centre had made in achieving its other objectives, which include supporting decision making across the Group through the prompt delivery of centralised management information, and providing high quality, consistent advice, support and resolution.