



IRISH CONTINENTAL GROUP

2018 Annual Report and Financial Statements

Report of the Audit Committee



## Report of the Audit Committee

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Dear shareholder,

I am pleased to present the report of the Audit Committee (“the Committee”) for the year ended 31 December 2018.

The Committee plays an important role in ensuring the Group’s financial integrity for shareholders through oversight of the financial reporting process, including the risks and controls in that process. This report sets out how the Committee fulfilled its duties under its Terms of Reference, the UK Corporate Governance Code, the Irish Annex and legislation.

The Committee has reviewed the critical accounting judgements and key sources of estimation applied in preparing these Financial Statements and have reported to the Board on these.

The Committee also performed a review of this Annual Report including both the financial and non-financial information to ensure that the report presents a fair, balanced and understandable assessment of the Group’s and Company’s position and prospects and that it also provides the information necessary for shareholders to assess the Group’s strategy, business model and performance.

The Committee reported to the Board on the on-going monitoring of the effectiveness of the Group’s systems of risk management and internal control.

**John Sheehan**  
Chair of the Audit Committee

### Composition

The Audit Committee membership is set out in the table below which also details attendance and tenure.

Member	A	B	Tenure
J. Sheehan (Chair)	3	3	5 years
C. Duffy	3	3	7 years
B. O’Kelly	3	3	6 years

*Column A:* the number of scheduled meetings held during the year where the Director was a member of the Committee.

*Column B:* the number of scheduled meetings attended during the year where the Director was a member of the Committee.

The members bring significant professional expertise to their roles gained from a broad level of experience gained outside of the Group. This together with their experience as Directors of the Company the Committee as a whole has competence relevant to the sector in which the Group operates. The member’s biographies are set out on pages 58 to 59. The Board has determined that all appointees are independent, that Brian O’Kelly and John Sheehan have recent and relevant financial experience and that all members have experience of corporate financial matters. Overall the Committee is independent and possesses the skills and knowledge to effectively discharge its duties under the Committee’s Terms of Reference. The Company Secretary acts as secretary to the Committee.

The scheduled meetings take place on the same day as Board meetings. The Chairman provides updates to the Board on key matters discussed and minutes are circulated to the Board.

### Role and Responsibilities

The role, responsibilities and duties of the Audit Committee are set out in written terms of reference which are reviewed annually. The terms of reference are available on the Group’s website [www.icg.ie](http://www.icg.ie).

The principal responsibilities of the Committee cover the following areas;

- Supporting the Board in fulfilling its responsibilities in relation to the integrity of financial reporting process.
- Advise whether the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company’s position, performance, business model and strategy.

- Monitor the effectiveness of the Group's internal controls and financial risk management systems, including the internal audit function.
- Managing the relationship with the external auditor, including consideration of the appointment of the external auditor, the level of audit fees, and any questions of independence, provision of non-audit services, resignation or dismissal. The Committee discusses with the external auditor the nature and scope of the audit and the findings and results.
- Overseeing the operation of the Group's whistleblowing procedures.

## Work Performed

The principal work undertaken by the Committee during the period under review was focused on the following areas:

### Financial Reporting

The Committee reviewed the Group's Half Yearly Financial Report for the six months ended 30 June 2018, the Statement of Results and Annual Report & Financial Statements, for the financial year ended 31 December 2018 and the two Trading Statements issued during the year. These reviews considered:

- The impact of the new accounting standards on Financial Instruments (IFRS 9) and Revenue from Contracts with Customers (IFRS 15) implemented by the Group with effect from 1 January 2018 together with the potential impact of the new standard on Leases (IFRS 16) effective for the Group from 1 January 2019;
- Other than for new standards the consistency, appropriateness and application of the Group's accounting policies;
- The clarity and completeness of disclosures and compliance with financial reporting standards, legislative and regulatory requirements;
- Whether these reports, taken as a whole, were fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy;
- A comparison of these results with management accounts; and
- The critical accounting judgements and key sources of estimation applied in the preparation of the financial statements.

In assessing if the financial statements have dealt appropriately with each area of judgement the Committee challenged the key assumptions and methodologies used by management in formulating estimates. The critical accounting judgements and key sources of estimation applied in the preparation of the financial statements for the financial year ended 31 December 2018 are set out below and also discussed in detail on page 129.

### Post-employment benefits

The Group operates a number of group sponsored pension schemes and is also a participating employer in the Merchant Navy Officers Pension Fund, a multi-employer scheme. Details of these schemes are set out in note 31 to the financial statements. The size of the pension obligations is material to the Group and sensitive to actuarial assumptions. The Committee has reviewed actuarial advice on the assumptions provided by the Group actuary and discussed these with the External Auditor. The Committee was satisfied that the assumptions used were reasonable and that the obligations set out in the financial statements are consistent with the assumptions.

### Going Concern

The Committee reviewed the appropriateness of using a going concern assumption for the preparation of the Group Financial Statements. The Committee considered future trading projections and available committed borrowing facilities available to the Group. The Committee were therefore satisfied that the Group will have adequate financial resources to continue in operational existence for the foreseeable future. The Going Concern Statement is set out on page 60.

### Useful lives for property, plant and equipment and intangible assets

Long-lived assets comprising primarily of property, plant and equipment and intangible assets represent a significant portion of total assets. Changes in the useful lives or residual values may have a significant impact on the annual depreciation and amortisation charge. The Committee reviewed the useful lives of significant assets, along with the residual values used for vessels, and were satisfied that the estimates used were reasonable.

# Report of the Audit Committee

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## Impairment

The Group does not have assets which are required to be tested annually for impairment. In relation to other significant assets the Committee made inquiries of management to determine whether there were any indications of impairment. The Committee were satisfied that no internal or external indications of impairment were identified and consequently no impairment review was required.

The Committee also reviewed the calculation and presentation of the non-trading item related to the disposal of the vessel Jonathan Swift.

The Committee reviewed and challenged management's assumptions and scenarios together with the calculations supporting the Viability Statement set out on page 60. The Committee also considered the report of the key audit findings presented by the external auditor which noted that there were no material unadjusted misstatements identified by them. Following this process the Committee is satisfied that the financial statements have dealt appropriately with each area of judgement.

Based on this work the Committee reported to the Board that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance and recommended that the Annual Report and Financial Statements be approved by the Board.

## Risk Management and Internal Control

The risk management framework is set out on page 41. The Committee, on behalf of the Board, reviews the effectiveness of the Group's control environment including internal controls and financial risk management systems.

The Committee oversees the work of the Risk Management Committee ("RMC") which coordinates a unified system of ongoing identification, monitoring and reporting of risks throughout the Group. The activities of the RMC are undertaken alongside the activities of internal audit.

During the year the Committee met with members of the RMC and presentations were made outlining the work undertaken to date in standardising risk monitoring systems and proposed timetables. The Committee reviewed the risk appetite statements prepared by

the RMC which were then presented to the Board for approval. The Committee also received regular reports throughout the year including internal audit reviews, operational and safety risk reviews including information technology and cyber security. In addition the Chairman meets regularly with the Internal Auditor.

The Committee undertook a review of the RMC and Internal Audit activities in order to assess how effectively it had performed. Following the review, the Committee was satisfied that the RMC and Internal Audit were achieving their objectives. Overall the Committee continues to be satisfied that the Group control environment remains appropriate and effective.

## External Audit

The Committee is responsible for managing the relationship with the Group's external auditor and monitoring their performance, objectivity and independence. Deloitte is the current external auditor to the Group.

Deloitte confirmed to the Company that they comply with the Ethical Standards for Auditors (Ireland) 2016 as issued by IAASA and that, in their professional judgement, they and, where applicable, all Deloitte network firms are independent and their objectivity is not compromised.

The Committee met with Deloitte prior to the commencement of the audit of the financial statements for the financial year ended 31 December 2018. The Committee considered Deloitte's internal policies and procedures for maintaining independence and objectivity and their approach to audit quality. The Committee assessed the quality of the external audit plan as presented by Deloitte and satisfied itself as to the expertise and resources being made available. The Committee also reviewed the terms of the Letter of Engagement and approved the level of remuneration.

Deloitte reported their key audit findings to the Committee in March 2019 prior to the finalisation of the financial statements. This report, which included a schedule of unadjusted errors and misstatements, significant judgements and estimations and key areas of risk, was considered by the Committee in forming their recommendation to the Board. The Committee also considered the representations sought by Deloitte from the Directors.

Deloitte issued a letter on control weaknesses noted during their audit, none of which were considered of a serious nature so as to cause Deloitte to amend the scope of their original audit plan. The Committee has considered these and having discussed with management have directed remedial action be taken where considered appropriate.

The Committee evaluated Deloitte's performance which included an assessment of Deloitte's communication process with the Committee and senior management, knowledge of the Group and industry sector and resource commitment to the external audit and the Committee is satisfied that Deloitte remain effective, objective and independent. The Committee therefore recommended to the Board that Deloitte be retained as auditors to the Group for financial year 2019.

Deloitte was first appointed by the Company to audit its financial statements for the financial year ended 31 October 1988 and subsequent financial periods. The lead partner is rotated every five years to ensure continued objectivity and independence. Mr. Ciarán O'Brien has acted as lead partner for the audit of the 2018 Financial Statements having been appointed to that role during 2016.

The Committee notes that under Part 27 Statutory Audits of Companies Act 2014, the Group will at the latest be required to conduct a tender process for the external audit in respect of the financial year 2021. As Deloitte will have served in excess of 20 years at that time they will not be eligible for re-appointment. The Committee will initiate a tender process in sufficient time to allow for an orderly transition to the new external auditor.

#### **Non-Audit Services**

The Committee permits the external auditor to provide non-audit services where they are permitted under Part 27 Statutory Audits of Companies Act 2014 and are satisfied that they do not conflict with auditor independence. The Committee's policy on the provision of non-audit services requires that each engagement for the provision of non-audit services requires approval of the Committee. The Committee approved the engagement of the external auditor to provide certain tax compliance services in respect of the 2018 financial year. This approval was granted on the basis of procedural efficiency and having considered that the level of fees would be unlikely to affect the independence of the external auditor.

The Audit Committee has considered all relationships between the Company and the external audit firm, Deloitte, including the provision of non-audit services as disclosed in note 9 to the financial statements which are within the thresholds set out in Part 27 Statutory Audits of Companies Act 2014. The Committee does not consider that those relationships or the level of non-audit fees impair the auditor's judgement or independence.

#### **Whistleblowing Procedures**

The Group has a suite of policies covering employee conduct which are available on the internal staff intranet. Employees are reminded to refresh their knowledge of these policies at least annually. These policies include a whistleblowing policy formulated by the Committee and procedures are in place to enable employees to raise, in a confidential manner, any genuine concerns about possible financial impropriety or other wrongdoing. The Committee last reviewed this policy and procedure in October 2018.



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