

GOVERNANCE REPORT

Audit Committee Report



Christopher Rogers
Chairman of the
Audit Committee

“During the year the Committee continued to focus on monitoring the effectiveness and integrity of the Group’s financial reporting, internal control and risk management processes.”

Dear Shareholder,

On behalf of the Audit Committee, I am pleased to present my report for the year ended 31 December 2021. The report outlines how the Committee discharged its responsibilities during the year in relation to financial and other reporting, risk management and internal control, the Internal Audit function and our relationship and interaction with the external auditor.

The Committee supported the Board in assessing the principal and emerging risks facing the Group, particularly in the context of the ongoing COVID-19 pandemic. This included reviewing the Group’s risk management and internal control systems and overseeing the operation of the Internal Audit function.

The Committee continued its work to strengthen non-financial controls and governance arrangements which included oversight of a project to refresh the Group’s Code of Conduct which is a practical guide to upholding the Group’s commitment to the highest standards of integrity and ethical behaviour. Each regular meeting included reviews of risk and compliance related activities and further details with regard to these matters are set out on page 112.

The Committee focused on monitoring the integrity of the Group’s Financial Statements and announcements relating to the Group’s financial performance. It reviewed the work completed by management in respect of the Going Concern and Viability Statements, including a consideration of the continuing impact of COVID-19 and the potential impact of climate related risks and concluded that there was no threat to the Group’s prospects or viability. Further details are set out on pages 84-85. The Committee also assisted the Board in determining that the Annual Report and Consolidated Financial Statements, when taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group’s and the Company’s position, performance, business model and strategy. The significant issues that the Committee considered in relation to the financial statements and how these issues were addressed are set out on page 111.

The Committee oversaw the relationship with the external auditor, including monitoring all matters associated with their appointment, remuneration, performance and independence.

Following a detailed planning process, PwC again conducted a largely remote audit across the Group and the Committee reviewed the scope and results of the audit and the effectiveness of the process. The work completed in this regard is outlined on page 113.

As outlined on page 114, the Committee considered the requirements of the Companies Act 2014 in relation to the Directors’ Compliance Statement and is satisfied that appropriate steps have been undertaken by the Company to ensure that it is materially compliant with its relevant obligations.

Ms. Joan Garahy retired as a Director and member of the Committee at the company’s AGM on 29 April 2021 and I would like to extend my sincere thanks to her for her service to the Committee during her tenure.

Looking ahead to 2022, the Committee’s key priorities will include maintaining oversight of the Group’s risk management and internal control processes, sustaining a strong culture of risk management across the Group, continuing to monitor the impact of climate change on assumptions and taking a proactive approach in anticipating and preparing for any legislative or regulatory changes which may be required to internal controls and reporting.

I trust you will find this report useful in understanding the operation and activities of the Committee during the year and I welcome any comments from shareholders on the report.

Christopher Rogers
Chairman of the Audit Committee

Roles and Responsibilities

The main roles and responsibilities of the Committee, which reflect the UK Corporate Governance Code and the Irish Annex and the Guidance on Audit Committees, are set out in its written Terms of Reference which are available from the Group's website www.kerrygroup.com or upon request.

The primary responsibilities outlined in the terms of reference are included in the table below:

Primary Responsibilities of the Audit Committee

- monitoring the integrity of the Group's financial statements, including reviewing significant financial reporting judgements contained in them;
- reviewing the Interim Management Statements, the Interim and Annual Consolidated Financial Statements and considering the appropriateness of accounting policies and practices;
- advising the Board on whether it believes there are any material uncertainties which may impact the Group's ability to continue as a going concern or the Group's long-term viability;
- advising the Board on whether the Annual Report and Consolidated Financial Statements, when taken as a whole is fair, balanced and understandable;
- assisting the Board in its responsibilities in regard to the assessment of the principal and emerging risks facing the company, the monitoring of risk management and internal control systems, including a review of effectiveness;
- reviewing the operation and effectiveness of the Group Internal Audit function;
- making recommendations to the Board in relation to the appointment, re-appointment and removal of the Group's external auditor as well as monitoring their effectiveness and independence;
- reviewing, on behalf of the Board, the Group's whistleblowing arrangements for its employees and third parties to raise concerns in confidence about possible wrongdoings in financial reporting or other matters; and
- advising the Board in relation to compliance with stock exchange and other legal or regulatory requirements.

Committee Membership

The Audit Committee currently comprises five independent non-Executive Directors; Dr. Hugh Brady, Ms. Emer Gilvarry, Mr. Jinlong Wang, Mr. Michael Kerr and is chaired by Mr. Christopher Rogers.

Mr. Jinlong Wang was appointed to the Committee on 3 May 2021 and Mr. Michael Kerr was appointed on 1 November 2021.

Ms. Joan Garahy retired from the Board and the Audit Committee following the conclusion of the AGM on 29 April 2021.

The Board is satisfied that both Mr. Christopher Rogers and Mr. Michael Kerr meet the specific requirements for recent and relevant financial experience as set out in the Code.

The Board is also satisfied that together, the members of the Committee, as set out in their biographical details on pages 87-89, bring a broad range of relevant skills, experience and expertise, from a wide variety of industries and backgrounds, and as a whole have competence relevant to the sectors in which the Group operates. The Company Secretary is the Secretary of the Committee.

Committee Meetings

The Committee met six times during the year and attendance at these meetings is outlined on page 106. Typically, the Chief Executive Officer, the Chief Financial Officer, the Group Financial Controller, the Company Secretary and the Head of Internal Audit, as well as representatives of the external auditor are invited to attend meetings of the Committee. In addition, the Chairman of the Board attends meetings at the invitation of the Committee. When required, other key executives and senior management are invited to attend to present and provide deeper insight on various topics as are required by the Committee to discharge its duties.

The external auditor and the Head of Internal Audit have direct access to the Committee Chairman at all times and meet with the Committee, without other Executive Management being present, on a formal basis at least annually in order to provide additional opportunity for open dialogue and feedback.

After each Committee meeting, the Chairman of the Committee reports to the Board on the key issues which have been discussed.

Committee Evaluation

As outlined in detail on page 107, an internal evaluation of Board effectiveness included a review by the Committee of its own effectiveness. The output was discussed by the Committee and it was concluded that the Committee continued to operate effectively throughout the year as well as identifying ongoing areas of focus for the 2022 financial year.

Financial Reporting and Significant Financial Judgements

The Audit Committee reviewed the Interim Management Statements, the Interim and Annual Consolidated Financial Statements and all formal announcements relating to these statements before submitting them to the Board of Directors with a recommendation to approve. These reviews focused on, but were not limited to:

- the appropriateness and consistency of accounting policies and practices;
- the going concern assumption;
- compliance with applicable financial reporting standards and corporate governance requirements as well as the clarity and completeness of disclosures; and
- considering the significant areas of complexity, management judgement and estimation that had been applied in the preparation of the Consolidated Financial Statements in accordance with the accounting policies.

The Committee has been regularly briefed by Group management on interaction with the Irish Auditing and Accounting Supervisory Authority (IAASA) in respect of their review of the 2020 Annual Report and Consolidated Financial Statements in line with their statutory functions and normal practice. All matters arising from this review have been concluded satisfactorily.

The Committee considered the impact of climate change on the Group's Consolidated Financial Statements and agreed that the disclosures outlined on pages 68-74 made in response to the recommendations of the

Task Force on Climate-related Financial Disclosures are appropriate and that the assumptions used in the financial statements as outlined in note 1 are consistent with these disclosures.

The Committee has, with the support of PwC as external auditor, reviewed the suitability of the accounting policies which have been adopted and whether management have made appropriate judgements and disclosures. The table below sets out the significant matters considered by the Committee in relation to the Consolidated Financial Statements for the year ended 31 December 2021.

Significant Financial Reporting Judgements	
Impairment of Goodwill and Indefinite Life Intangible Assets	Goodwill and indefinite life intangible assets, as disclosed in note 12 to the Consolidated Financial Statements, represents the largest number on the Group balance sheet at €4.7 billion. The Committee considered the process to complete the annual impairment review of the Group's goodwill and indefinite life intangible assets and specifically the assumptions used for the future cash flows, discount rates, terminal values and growth rates. This included consideration of the impact of the pace and extent of economic recovery in some markets as a result of COVID-19 in addition to the potential impact of climate change on such assessments and a consideration of the sensitivity analysis run by management. Following discussions with senior management and the external auditor, the Committee found that the methodology used for the above valuation and annual impairment review are appropriate and no impairment was identified.
Going Concern and Viability Statement	The Committee assessed the effectiveness of the process undertaken by management to evaluate going concern which included reviewing and challenging management's assumptions and modelling of projected cashflows and, in particular those related to the continuing impact of COVID-19 and the potential impact of climate related risks on profitability and liquidity on future trading performance. The Committee also considered the Group's financing facilities and future funding plans. Based on this, the Committee confirmed there were no material uncertainties that cast a significant doubt on the Group or the Company's ability to continue as a going concern and therefore the application of the going concern basis for the preparation of the financial statements continued to be appropriate and recommended the approval of the viability statement.
Business Combinations	The Group acquired five businesses during the financial year which were accounted for as business combinations. The Committee reviewed the methodology and assumptions applied in determining these provisionally estimated fair values and found the methodology and assumptions to be appropriate following discussion with senior management and the external auditor.
Taxation	Significant judgement and a high degree of estimation is required when arriving at the Group's tax charge and liability. The Committee, in conjunction with tax professionals, reviewed and discussed the basis for the judgments in relation to uncertain tax positions and challenged management on their assertions and also considered the outcome of the external auditors' review of the tax charge and liability. As a result, the Committee believes the impact of uncertain tax positions has been appropriately reflected in the tax charge and liability.

Fair, Balanced and Understandable

At the request of the Board, the Audit Committee reviewed the content of the Annual Report and Consolidated Financial Statements to ensure that it is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's and the Company's position, performance, business model and strategy.

In fulfilling this responsibility, the Committee considered the following:

- the timetable for the co-ordination and preparation of the Annual Report and Consolidated Financial Statements, including key milestones as presented at the December Audit Committee meeting;

- the systematic approach to review and sign-off carried out by senior management with a focus on consistency and balance; and
- a detailed report from senior finance management outlining the process through which they assessed the narrative and financial sections of the 2021 Annual Report to ensure that the criteria of fair, balanced and understandable has been achieved.

Management ensured that the draft Annual Report and Consolidated Financial Statements were available to the Audit Committee in sufficient time for review in advance of the Committee meeting to facilitate adequate discussion at the meeting.

Having considered the above, in conjunction with the consistency of the various elements of the reports, the narrative reporting and the language used, the Committee confirmed to the Board that the Annual Report and Consolidated Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and the Company's position, performance, business model and strategy.

Internal Control and Risk Management

The Audit Committee supports the Board in its duties to review and monitor, on an ongoing basis, the effectiveness of the Group's risk management and internal control systems. A detailed overview of the Group's risk management framework is set out in the Risk Management Report on pages 75-78.

Throughout the year, the Committee:

- reviewed and approved the assessment of the principal risks and uncertainties, including climate change and emerging risks, that could impact the achievement of the Group's strategic objectives as described on pages 78-84;
- reviewed and approved the risk appetite for each of the Group's principal risks and recommended the risk appetites as outlined for approval by the Board;
- received presentations on a selection of principal risks and discussed with senior management the material internal controls that exist to mitigate these to levels within the Group's risk appetite;
- reviewed quarterly reports from the Head of Internal Audit based on internal audits completed outlining non-compliances with Group controls and managements' action plans to address them;
- considered reports from the Head of Internal Audit on fraud investigations or other significant control matters which occurred during the year and approved plans to address and remediate the issues identified;
- received updates from the Group Financial Controller on any control weaknesses identified through monthly financial review meetings;
- considered the results of the Kerry Control Self Assessment (the internal control self-assessment review of material finance, operational and compliance controls) and concluded that the controls are operating effectively;
- received presentations from management on work completed to refresh the Group's Code of Conduct which includes sections on protecting our people, working with integrity, safeguarding our information and assets and caring for our communities;
- assessed the Group's risk management and internal control framework in line with the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting; and
- reviewed the report from the external auditor in respect of significant financial accounting and reporting issues, together with significant internal control weakness observations.

In addition to the above, the Board received two updates from ICT management with regard to the Group's ICT governance and information security programme and its ability to address cybersecurity threats particularly in the context of its criticality to the business and an increase in the global risk level. Further detail with regard to the Group's information systems and cybersecurity controls are outlined on page 82 of the Risk Report.

The Audit Committee, having assessed the above information, is satisfied that the internal control and risk management framework is operating effectively and has reported this opinion to the Board.

Internal Audit

The Audit Committee is responsible for monitoring and reviewing the operation and effectiveness of the Group Internal Audit function including its focus, plans, activities and resources. To fulfil these duties the Committee:

- reviewed and approved the Group Internal Audit function's charter, strategy and annual plan;
- considered and were satisfied that the competencies, experience and level of resources within the Internal Audit team were adequate to achieve the proposed plan;
- considered the role and effectiveness of Internal Audit in the overall context of the Group's risk management framework and was satisfied that the function has appropriate standing within the Group;
- received quarterly updates from the Head of Internal Audit on the delivery of the 2021 plan and on the principal findings from the work of Internal Audit and management's actions to remediate issues identified;
- considered the impact of remote versus on-site auditing in certain jurisdictions as a result of ongoing COVID-19 travel restrictions;
- received updates on the nature and extent of non-audit activity performed by Internal Audit;
- ensured that the Head of Internal Audit had regular meetings with the Chairman of the Audit Committee and the Committee met with the Head of Internal Audit without the presence of Executive Management;
- ensured that the Head of Internal Audit had access to the Chairman of the Board if required; and
- ensured co-ordination between Group Internal Audit and the external auditor to maximise the benefits from clear communication and co-ordinated activities.

In order to comply with the Chartered Institute of Internal Auditors (CIIA) requirements, an External Quality Assessment (EQA) by an independent body is conducted at least every five years to confirm conformance with the International Professional Practice Framework (IPPF) of the CIIA. The most recent EQA was completed in 2017 and the next review will be completed in 2022. On an annual basis, to ensure ongoing compliance with the IPPF, the Group Internal Audit function has an internal Quality Assurance and Improvement Program (QAIP) in place.

On the basis of the above, the Committee concluded that for 2021 the Group Internal Audit function operated effectively and is satisfied that the quality, experience and expertise of the function is appropriate for the Group.

External Auditor

On behalf of the Board, the Audit Committee has primary responsibility for overseeing the relationship with, and performance of, the external auditor. This includes making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, assessing their independence and effectiveness and approving the audit fee.

During the year, the Committee met with the external auditor without management present to discuss any issues that may have arisen during the audit of the Group's Consolidated Financial Statements.

Independence and Provision of Non-Audit Services

The Committee is responsible for ensuring that the external auditor is independent and for implementing appropriate safeguards where the external auditor also provides non-audit services to the Group.

PwC confirmed to the Audit Committee that they are independent from the Group under the requirements of the Irish Auditing and Accounting Supervisory Authority's Ethical Standards for Auditors. PwC were appointed as the Group's external auditor in 2016 and the Committee will ensure that in accordance with EU legislation in relation to Audit Reform as adopted in Irish legislation, the external auditor will be rotated at least once every ten years. The audit lead engagement partner for the financial year ended 31 December 2021 is Enda McDonagh who was appointed in 2021 following the rotation of the previous partner.

In accordance with the Group's policy on the hiring of former employees of the current external auditor, the Committee reviews and approves any appointment of an individual, within three years of having previously been employed by the current external auditor, to a senior managerial position in the Group.

A formal policy governing the provision of non-audit services by the external auditor is in place and is reviewed and approved by the Audit Committee annually. This policy is in accordance with applicable laws and takes into account the relevant ethical guidance for auditors. This policy is designed to safeguard the objectivity and independence of the external auditor and to prevent the provision of services which could result in a potential conflict of auditor independence. The policy outlines the services which can be provided by the external auditor, the relevant approval process for these services, and those services which the external auditor is prohibited from providing.

In 2021, all non-audit services and fees were approved by the Audit Committee in line with policy. The Committee is satisfied that the non-audit fees paid to PwC, which were minimal, did not compromise their independence or objectivity. Full details of the fees paid to the external auditor during the year for non-audit services are outlined in note 3 to the financial statements. Having considered all of the above, the Committee concluded that the Group's external auditor is independent.

Effectiveness

Post completion of the 2020 audit, in conjunction with PwC, review meetings were held with senior finance management across all regions and it was confirmed by both parties that no issues had arisen during the audit process. This review considered the process and technology changes which were implemented to support conducting the audit remotely and were satisfied that it did not compromise the quality of the audit.

At the October Audit Committee meeting, PwC outlined to the Committee in detail the 2021 external audit plan which, similar to 2020, would be conducted remotely. The Committee discussed the significant audit risks and key audit matters, audit scope and materiality amongst other matters. The Audit Committee agreed that the plan and the materiality at which any misstatements should be reported by PwC to the Committee was appropriate.

Prior to the finalisation of the 2021 Consolidated Financial Statements, the Audit Committee received a detailed presentation and final report from PwC. The Committee also considered feedback from the lead partner and senior executives in concluding that PwC effectively delivered against the objectives of the agreed audit plan.

In assessing the effectiveness of the external auditor, the Audit Committee also considered the following:

- the quality of presentations to the Board and Audit Committee;
- the technical insights provided relevant to the Group;
- key audit findings, including their robustness and perceptiveness in handling of key accounting and audit judgements; and
- their demonstration of a clear understanding of the Group's business and key risks.

On the basis of the above the Committee is satisfied with the effectiveness of the external auditors.

Appointment

PwC were appointed as external auditor in March 2016 following a comprehensive tender process which was overseen by the Audit Committee. On an annual basis, the Committee reviews the appointment of the external auditor, taking into account the auditor's effectiveness and independence. On that basis, the Committee recommended to the Board that PwC should continue in office as the auditor to the Group in respect of the year ending 31 December 2022.

The Audit Committee approved the remuneration of the external auditor, details of which are set out in note 3 to the Consolidated Financial Statements.

Directors' Compliance Statement

During the year, the Audit Committee reviewed the appropriateness of the Directors' Compliance Policy Statement and also received a report from senior management on the review undertaken during the financial year of the compliance structures and arrangements in place to ensure the Company's material compliance with its relevant obligations. On the basis of this review, the Committee confirmed to the Board that in its opinion the Company is in material compliance with its relevant obligations.

Whistleblowing and Fraud Arrangements

In accordance with the Provisions of the Code, the responsibility for overseeing whistleblowing is within the remit of the Board. During 2021, at the request of the Board, the Committee considered the Group's whistleblowing arrangements and assisted the Board in its assessment of the adequacy of these arrangements. Details of the Group's whistleblowing arrangements are outlined in the Corporate Governance Report on page 104.

The Committee also considered the Group's procedures for fraud prevention and detection to ensure that these arrangements allow for the proportionate and independent investigation of such matters and appropriate follow up action. Following this review, the Audit Committee confirmed to the Board that it was satisfied that the Group's fraud prevention procedures were adequate.