



**Christopher Rogers**  
Chairman of the Audit Committee

Dear Shareholder,

On behalf of the Audit Committee it is my pleasure to present our report for the year ended 31 December 2018. This is my first Audit Committee report having been appointed as Audit Committee Chairman following the appointment of Mr. Philip Toomey as Chairman of the Board on 3 May 2018. I would like to acknowledge and thank Philip for his support during the transition process and also for his valued leadership of the Committee over the last five years. I would also like to thank the members of the Committee for their diligence and support during the year.

The report details how the Audit Committee fulfilled its responsibilities during the year under the 2016 UK Corporate Governance Code and the Irish Annex (the Code) and the 2016 Financial Reporting Council (FRC) Guidance on Audit Committees. During the year, we have continued to focus our efforts on the Committee's core areas of responsibility of maintaining integrity across all aspects of Group reporting, internal control, risk management and audit quality. The chart on page 102 outlines the allocation of the Committee's time across these various activities.

The Committee is responsible for assisting the Board in regard to the assessment of the principal risks facing the Group, including reviewing the Group's risk management and internal control systems. The work performed by the Committee in this regard encompassing ongoing monitoring and the review of effectiveness is detailed on page 103.

The Committee is also responsible for monitoring the integrity of the Group's financial statements and any formal announcement relating to the Group's financial performance. In addition, the Committee assisted the Board in determining that the Annual Report and 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 work completed in this regard is set out on page 103

As outlined on page 105, the Committee has 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.

Our engagement with the Group Internal Audit function and external auditors is detailed on page 104-105.

I trust you will find this report useful in understanding the operation and activities of the Committee over the year. I will be available to shareholders at the forthcoming AGM to answer any questions relating to the role of the Committee.

A handwritten signature in dark ink, appearing to read 'Christopher Rogers', with a horizontal line underneath.

**Christopher Rogers**  
Chairman of the Audit Committee

## Roles and Responsibilities

The main roles and responsibilities of the Committee, which reflect the Code and the Guidance on Audit Committees, are set out in written terms of reference which are available from the Group's website ([www.kerrygroup.com](http://www.kerrygroup.com)) or upon request.

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

### Primary Responsibilities of the Audit Committee

- Ensuring the interests of shareholders are properly protected in relation to financial reporting and internal control;
- Assisting the Board in executing its duties in relation to risk management and oversight and monitoring of internal controls;
- Monitoring the work of the Internal Audit function;
- Making recommendations to the Board in relation to the appointment, reappointment and removal of the Group's external auditor as well as monitoring their effectiveness and independence;
- 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 that may impact the Group's ability to continue as a going concern or impact the Group's long term viability;
- Advising the Board on whether the Annual Report and Financial Statements, when taken as a whole are fair, balanced and understandable;
- Advising the Board on the effectiveness of the Group's whistleblowing arrangements; and
- Advising the Board in relation to compliance with stock exchange and other legal or regulatory requirements.

During the year, the Audit Committee Chairman provided a letter to the Board outlining how the Committee discharged its duties in 2018.

## Committee Membership

During 2018, the Audit Committee comprised four independent non-Executive Directors; Dr. Hugh Brady, Ms. Joan Garahy, Mr. Tom Moran and was chaired by Mr. Christopher Rogers from 8 May 2018 having succeeded Mr. Philip Toomey who stepped down from the Committee on 3 May 2018.

As required by the Code, the Board is satisfied that both Mr. Christopher Rogers and Ms. Joan Garahy meet the requirements for recent and relevant financial experience. Mr. Rogers has joined the Committee bringing a wide range of international experience both as a business leader and as a non-Executive Director. He previously served as an Executive Director of a global food and drinks FTSE 100 listed company for several years and currently holds a number of non-Executive Directorships, including Chairman of the Audit and Risk Committee of a leading FTSE 250 listed energy group. The Board is satisfied that together, the members of the Committee, as set out in their biographical details on page 89, bring a broad range of relevant 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 there was full attendance by Committee members, who were eligible to attend, at all meetings.

Typically, the Chief Executive, the Chief Financial Officer, the Group Financial Controller 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 meetings to provide a deeper insight on agenda items related to the Group's principal risks.

The Committee meet with the external auditor and the Head of Internal Audit, without other executive management being present, on an annual basis in order to discuss any issues which may have arisen in the year under review.

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

The allocation of the Audit Committee's time across each of its key activities is detailed below.

### Allocation of Time



## Committee Evaluation

The internal evaluation of Board effectiveness described on page 99 included a review by the Committee of its own effectiveness. The Audit Committee was deemed to be operating effectively and efficiently. The Committee is satisfied that formal and transparent arrangements exist for considering corporate reporting, risk management, internal control principles and for maintaining an appropriate relationship with the Company's external auditor.

<b>Significant Financial Reporting Judgements</b>	
<b>Business Combinations</b>	The Group acquired ten 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.
<b>Impairment of Goodwill and Indefinite Life Intangible Assets</b>	Goodwill and indefinite life intangible assets, as disclosed in note 12 to the financial statements, represents the largest number on the Group balance sheet at €4.1bn. 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. The Committee found that the methodology used for the above valuation and annual impairment review are appropriate following discussions with senior management and the external auditor.
<b>Taxation</b>	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.

## Key Activities

### 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, corporate governance requirements and the clarity and completeness of disclosures; and
- significant areas in which judgement had been applied in the preparation of the financial statements in accordance with the accounting policies.

A key responsibility of the Committee is to consider the significant areas of complexity, management judgement and estimation that have been applied in the preparation of the financial statements. 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 above sets out the significant matters considered by the Committee in relation to the financial statements for the year ended 31 December 2018.

### Fair, Balanced and Understandable

At the request of the Board, the Audit Committee reviewed the content of the Annual Report 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 satisfying this responsibility, the Committee considered the following:

- the timetable for the co-ordination and preparation of the Annual Report and 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;
- a detailed report from senior finance management was presented to the Audit Committee outlining the process through which they assessed the narrative and financial sections of the 2018 Annual Report to ensure that the criteria of fair, balanced and understandable has been achieved; and
- the draft Annual Report and 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 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 Report on pages 73-75.

Throughout the year, the Committee:

- reviewed and approved the assessment of the principal risks and uncertainties that could impact the achievement of the Group's strategic objectives as described on pages 76-85;
- 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 failures 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 Reporting System (the internal control self-assessment review of material finance, operational and compliance controls) and concluded that the controls are operating effectively;
- 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.

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 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 strategy and annual plan to ensure alignment with the Group's principal risks;
- 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 progress against the agreed plan including the results of internal audit reports and management's actions to remediate issues identified;
- received updates on the nature and extent of non-audit activity performed by internal audit;
- held a meeting with the Head of Internal Audit without the presence of management;
- ensured that the Head of Internal Audit had regular meetings with the Chairman of the Audit Committee and 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 of the CIIA. The most recent EQA was completed in 2017, and found that the Internal Audit function was effective in providing independent assurance to the Group and conforms with the vast majority of the CIIA standards.

In addition, the assessment contained a number of recommendations to be considered to further evolve and strengthen the Internal Audit function's effectiveness. The recommendations are being implemented and the Committee will continue to monitor this.

On the basis of the above the Committee concluded that for 2018 the Internal Audit function was performing well 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, reappointment 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. The lead engagement partner on the Group's audit is John McDonnell who was appointed in 2016 and it is planned that he will rotate at the end of the audit of the results for financial year 2020 in order to ensure continued independence and objectivity. 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 this policy is reviewed and approved by the Audit Committee on an annual basis. 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 interest. The policy outlines the services that 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 (as outlined in Article 5 of EU Regulation 537/2014). Prohibited services include activities such as certain tax services, book-keeping and work relating to the preparation of accounting records and financial statements that will ultimately be subject to external audit, financial information system design and implementation, internal auditing and any work where a mutuality of interest is created that could compromise the independence of the external auditors.

In 2018, all non-audit services and fees were approved by the Audit Committee in line with policy. The Committee is satisfied that the fees paid to PwC which were minimal, did not compromise their independence or objectivity. Full details of the fees paid to the external auditors during the year 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 2017 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.

At the November Audit Committee meeting, PwC outlined to the Committee in detail the external audit plan. 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 2018 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; and
- 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**

The Audit Committee reviews annually 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 2019.

The Audit Committee approved the remuneration of the external auditor, details of which are set out in note 3 to the 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**

During 2018, the Committee considered the Group's arrangements for its employees to raise concerns in confidence about possible wrong doings in financial reporting and any other matters, which included a review of the Group's 'Express a Concern Service'. This service, which is run by an independent external provider, is multi-lingual and is accessible to all employees and third parties 24 hours a day either by phone or by email.

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 whistleblowing and fraud prevention procedures were adequate.