



IRISH CONTINENTAL GROUP



2019 ANNUAL REPORT & FINANCIAL STATEMENTS

REPORT OF THE AUDIT COMMITTEE

Report of the Audit Committee



Dear shareholder,

I am pleased to present the Report of the Audit Committee (the Committee) for the year ended 31 December 2019.

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 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 and Company's position and performance, business model and strategy. Other work undertaken included the on-going monitoring of the effectiveness of the Group's systems of risk management and internal control and external auditor effectiveness.

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	6 years
C. Duffy	3	3	8 years
B. O'Kelly	3	3	7 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 page 64. 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.

The principal responsibilities of the Committee cover the following areas;

- Supporting the Board in fulfilling its responsibilities in relation to the integrity of the 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 and performance, business model and strategy.

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Role and Responsibilities – continued

- 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.

During the year responsibility for oversight of the operation of the Group's whistleblowing procedures was transferred to the Board reflecting the widening of the scope of those procedures beyond financial impropriety.

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 2019, the Preliminary Statement of Results and this Annual Report and Financial Statements, for the financial year ended 31 December 2019 and the two Trading Statements issued during the year. These reviews considered,

- The impact of the new accounting standard IFRS 16: Leases;
 - The accounting treatment and presentation of the non-trading item related to the disposal of the vessel Oscar Wilde;
 - 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 position and 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 key sources of estimation uncertainty and critical accounting judgements applied in the preparation of the financial statements for the financial year ended 31 December 2019 are set out below and also discussed in detail on pages 138 to 139.

Key Estimates

• 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 33 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. 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.

• 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.

Critical Accounting Judgements

- **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.

- **Leases – non-cancellable lease term**

The application of IFRS 16 requires judgement in determining the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has leases with renewal options the exercise of which significantly affects the amount of lease liabilities and right of use assets recognised. This requires the exercise of judgement to assess the likelihood of these being exercised taking into account likely developments in the Group.

- **Leases – incremental borrowing rate applicable to first time recognition of right of use lease obligations**

The first time application of IFRS 16: Leases required estimation of the incremental borrowing rate application to right of use lease obligations. The size of the obligations is material to the Group particularly those obligations relating to land leases where the remaining term extended to between 77 and 103 years at date of application. This required exercise of judgement in the circumstance where discount rates over such terms for comparable assets, terms and credit risk were generally not observable in the market. Further details are provided at note 2.

- **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. The Committee were

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 66.

Viability Statement

The Committee reviewed and challenged management's assumptions and scenarios together with the calculations supporting the Viability Statement set out on page 67. The Committee also considered the appropriateness of the five year assessment time frame. The Committee was satisfied that a robust assessment had been completed and reported this to the Board.

Recommendations to the Board

Based on the work undertaken, the Committee reported to the Board that the Annual Report and Financial Statements for the year ended 31 December 2019 taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy and recommended that the Annual Report and Financial Statements be approved by the Board.

The Committee had also recommended the approval of the Half Yearly Financial Report for the six months ended 30 June 2019 and the Trading Statements issued during 2019.

Risk Management and Internal Control

The risk management framework is set out on page 52. 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.

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Risk Management and Internal Control – continued

During the year the Committee met with members of the RMC and presentations were made outlining the work undertaken in managing risk monitoring systems, procedures for ensuring the risk register is being updated for new and emerging risks and the management of exposure to principal risks. The work of the RMC is also central in putting consideration of risk to the fore in business decision making throughout the Group. The Committee reviewed the updated 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 and the Committee approved the 2019 internal audit plan.

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. This assessment has been reported to the Board.

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 2019. 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 2020 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 2020.

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 2019 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 has taken the initial steps to conducting a tender process in sufficient time to allow for an orderly transition to the new external auditor. This process is expected to be completed by 30 September 2020.

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 2019 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 of the 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.

John Sheehan

Chair of the Audit Committee



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