

# Audit, risk and internal control

## Audit and Risk Committee report

### Role and principal duties

The role of the Audit and Risk Committee is to support the Board in fulfilling its corporate governance and reporting obligations as to the effectiveness of Dunelm's risk management systems, internal controls and financial reporting. Its principal duties include:

- Monitoring the integrity of the Group's financial statements and public announcements relating to financial performance.
- Reviewing and challenging key accounting policies and judgements.
- Monitoring the effectiveness of internal controls and the process for identifying and managing risk.
- Reviewing and approving statements in the annual report concerning internal control, risk management (including the assessment of principal risks), and the viability statement.
- Approving and overseeing delivery of the internal audit plan. Monitoring and reviewing the role and effectiveness of the internal audit function and process, ensuring its ability to exercise independent judgement.
- Overseeing the relationship with the external auditor, agreeing the audit fee and terms of engagement.
- Reviewing and monitoring the external auditor's reports, performance, effectiveness and independence.

The Committee's full terms of reference can be found at: [corporate.dunelm.com](https://corporate.dunelm.com).



**Ian Bull**  
Chair of the Audit and Risk Committee

### Committee membership

Ian Bull (Chair)
Kelly Devine
William Reeve
Peter Ruis
Vijay Talwar
Arja Taaveniku

See page 60 for meeting attendance.

On behalf of the Audit and Risk Committee ('Committee'), I am pleased to present the Audit and Risk Committee report for the year ended 1 July 2023. The report explains how the Committee has discharged its responsibilities and provides an overview of its main activities during the year, the key highlights of which are set out below.

### Consideration of significant issues and judgements

During the year, the Committee examined the application of current and likely accounting and reporting standards. Careful scrutiny was given to judgemental items, assessing their appropriateness and consistency over time as noted on page 82. As part of our work, we considered and reflected on the previous year's external audit control observations, ensuring that any relevant recommendations were acted upon by management as agreed with the Committee.

## Risk management and internal control systems

The Board has overall responsibility for our risk management framework, but delegates authority to the Committee for the effective management of risk across the Group and monitoring of material internal controls. During the year, the Committee received regular updates on work to further improve and strengthen our risk management processes and internal control environment.

We received regular updates on the Group's principal and emerging risks and mitigation strategies via a suite of Key Risk Indicators ('KRI'), enabling the Committee to oversee enterprise risk and focus its attention on key risk areas and movements. We also received updates from the CFO as chair of the Risk and Resilience Committee, which provided the Committee with an additional level of assurance and deeper insight at an operational level.

Management also provided the Committee with updates throughout the year on internal control enhancements and we have welcomed the implementation of new software to enable balance substantiation, updated controls mapping of key financial processes and continued investment in our cyber security capabilities. Our ongoing multi-year project to improve processes and controls in the commercial function has continued to make solid progress, with dedicated resource and governance.

## Internal audit reviews

KPMG have completed their third year as our internal auditor. During the year they completed reports on supply chain, stock returns and ESG processes, amongst others. Management is working through the various recommendations, as well as those from previous reports, and an update on progress is provided at every Committee meeting. We seek to ensure that each year the internal audit plan is aligned with the Group's

strategic priorities and key risks and were pleased that there were no "high" findings in any of this year's reports. We continue to review our strategy and assurance map to prioritise our internal audit approach.

**See page 86 for more information on work undertaken this year by our internal auditor.**

## External audit tender

As reported last year, and in line with our audit rotation policy, we undertook a competitive audit tender process during the year. The process was informed by the Financial Reporting Council's ('FRC') guidance on audit tendering and, with due regard to the Government's proposed audit reforms, we invited five firms, including three challenger firms, to participate. Following the conclusion of the tender, the Board approved the reappointment of PwC as our external auditor and PwC has expressed its willingness to continue in role. This appointment is subject to shareholder approval at the Company's 2023 Annual General Meeting.

**See page 84 for more information on the external audit tender process.**

Following completion of PwC's FY22 audit, the Committee was informed that the FRC's Audit Quality Review team had chosen the Group's audit for its review. The Committee has received a copy of the review and was pleased to note that it did not identify any key findings and only a limited number of improvements were required.

## Sustainability reporting

We continue to focus on progress against existing and forthcoming sustainability-related reporting requirements, including those of the International Sustainability Standards Board ('ISSB'). In particular, the Committee has had oversight of management's planning for this year's disclosure requirements, including work to progress our understanding and

improve the data quality inputs into the Scope 3 calculations. This has led to a revised baseline, described in more detail on page 85 and we are pleased to confirm that we are reporting this year on all areas of the Task Force on Climate-related Financial Disclosures ('TCFD') framework.

## Developments in corporate reporting

The Board and the Committee support measures that increase the quality of governance, audit and transparency for the benefit of our shareholders and other stakeholders. We have continued to consider matters that are likely to be implemented as part of the corporate governance and audit reforms now being led by the Department for Business and Trade (including our approach to the implementation of an audit and assurance policy and the other requirements set out in the Draft Companies (Strategic Report and Directors' Report) (Amendment) Regulations 2023), whilst maintaining a watching brief as we wait to see how the proposals and timelines for their implementation unfold.

It has again been a busy year, and I would like to take this opportunity to thank my fellow Committee members for their hard work and support and our Executive Team and senior leadership for their constructive engagement. I look forward to answering any shareholder questions on the activities of the Committee at the AGM.

**Ian Bull**  
Chair of the Audit and Risk Committee

20 September 2023

## Audit and Risk Committee report continued

### Committee composition and governance

The Committee is composed solely of independent Non-Executive Directors, and was throughout FY23. The Board is satisfied that they demonstrate a breadth of knowledge and experience, including sector expertise, to enable the Committee to fulfil its duties. Both Ian Bull and Vijay Talwar are considered by the Board to have recent and relevant financial experience and to be competent in auditing and accounting. Ian, who has chaired the Committee since he joined the Board in 2019, is a Fellow of the Chartered Institute of Management Accountants with over 20 years' business and financial experience in leading consumer-facing businesses. Vijay, who joined the Committee in October 2021, is a Certified Public Accountant.

Only members of the Committee have the right to attend Committee meetings. Other Board Directors, as well as the Group Finance Director, Chief Technology and Information Officer, Head of Cyber Security, representatives of PwC (external audit) and representatives of KPMG (internal audit) are invited to attend all or part of meetings, as appropriate. The Group General Counsel and Company Secretary acts as secretary to the Committee and attends all meetings.

During the year, the Committee met three times (with a minimum of four meetings scheduled for FY24). Meetings are generally scheduled in line with key times in the Company's financial reporting calendar. The Committee maintains a rolling calendar of items for consideration at each meeting and reviews and updates it regularly. The external auditor and the internal auditor are provided with the opportunity at each meeting to discuss matters without the presence of management. Furthermore, the Committee Chair meets with the external audit and internal audit partners outside of meetings.

### Key judgements and financial reporting matters

A key aspect of the Committee's work is monitoring the integrity of the annual and interim reports, including a review of the significant financial reporting matters and judgements contained in them. Key accounting judgements considered, conclusions reached and their financial impacts during the year under review are set out below.

#### Provisions for inventory

The Committee discussed in detail the approach taken by management to provisions for inventory. Particular attention was given to reviewing the provision for obsolete, slow-moving or discontinued inventories including the utilisation of provisions reported in prior periods. The Committee noted that there was a high degree of consistency in the methodology applied by management, with updated inputs based on trading experience. The Committee concurred with management's conclusions that the values recorded in the financial statements are appropriate.

#### Other accounting matters

The Committee received regular updates on management's assessment of impairment triggers as required under IFRS and it was noted that there have been none identified in FY23. The Committee also noted that there is no material change in deferred tax assets and the Group has no uncertain tax provisions.

#### Going concern and viability statement

The Directors must determine that the business has adequate resources to continue in operational existence and as such can continue to adopt the 'going concern' basis of accounting. Furthermore, the Directors are required to make a statement in this Annual Report as to the longer-term viability of the Company.

The Committee conducted an assessment pursuant to which the Directors were able to conclude that it is appropriate to prepare the financial statements on a going concern basis.

They reviewed financial models (including downside scenarios and a reverse stress test), taking time to understand and challenge, where necessary, significant judgements and assumptions in the modelling, the reverse stress test model and covenant and liquidity headroom.

The Committee also evaluated management's work in conducting a robust assessment of the Company's longer-term viability. It affirmed the reasonableness of the assumptions, considered whether a viability period of five financial years remained most appropriate, and confirmed that it was as part of a recommendation to the Board.

[See page 55 for going concern and viability statements.](#)

#### Fair, balanced and understandable

The Committee reviews the financial statements set out in the Company's annual and interim results and reports its findings and recommendations to the Board. The Board considers the recommendations of the Committee, the representations made by management and the views of the internal and external auditors in order to satisfy itself of the integrity of the narrative and financial statements and to determine whether the financial and narrative statements when taken together present a fair, balanced and understandable assessment of the Company's position and prospects.

Robust year-end governance processes, performed in parallel with the formal process undertaken by the external auditor, are in place to support this and include:

- Project management by the Head of FP&A and Investor Relations, working with a cross-functional team including the Group General Counsel and Company Secretary and communications specialists, and overseen by the CFO.
- Internal verification by the finance team of non-financial factual statements, key performance indicators and descriptions used within the narrative.
- Engagement with, and feedback from, senior management on proposed content and changes.

- Feedback from external parties (including remuneration advisers and the external auditor) to enhance the quality of reporting.
- Opportunities for the Committee to challenge management and the external auditor on the process and content of the report before it is tabled to the Board for approval.

The Board considers that, taken as a whole, the Annual Report and Accounts 2023 is fair, balanced and understandable. The Board further believes that the Annual Report and Accounts 2023 provides the necessary information for shareholders to adequately assess the Company's position and performance, business model and strategy.

### External auditor

The Committee is responsible for overseeing the relationship with the external auditor, including recommending to the Board their appointment, reappointment and removal, assessing their independence on an ongoing basis, and approving the statutory audit fees. The Committee notes the publication in May 2023 of the FRC's Audit Committees and the External Audit: Minimum Standard.

PwC have been the Company's external auditor since 2014. The lead audit partner, Mark Skedgel, has been in post since the FY19 audit and is stepping down in September 2023 after completion of the FY23 audit, with Gill Hinks taking over in respect of FY24.

There are no contractual obligations that restrict the Committee's choice of external auditor.

### The external audit

PwC is engaged to express an opinion on the financial statements. It reviews the data contained in the financial statements to the extent necessary to express its opinion. It discusses with management the reporting of results and the financial position of the Company and presents findings to the Committee. Where it makes recommendations in its report to the Committee, the Committee reviews them and agrees with management the manner and extent to which they should be implemented.

Each of the Directors in office at the date of this report is not aware of any relevant information that has not been made available to PwC and each Director has taken steps to be aware of all such information and to ensure it is available to PwC. PwC's audit report is published on pages 126 to 131. Fees paid to PwC for its FY23 audit work were £327,000 (2022: £301,500).

### Auditor effectiveness

It is the responsibility of the Committee to assess the effectiveness and independence of the external audit process. The assessment is conducted in accordance with a process agreed with the Committee, which involves seeking the views of the Committee, as well as those of colleagues who have regular interactions with the external auditor. The Committee was provided with a summary of the responses received in respect of the FY22 audit to assist with its considerations.

Feedback overall was positive. It was agreed that the audit partner provided effective leadership and the audit team demonstrated a good understanding of Dunelm, the retail sector, and the challenges that we face. A common theme was the ongoing development of ways of working and use of new digital tools to assist in the efficient and timely completion of actions arising, in particular from ad hoc or follow on requests.

Having conducted its review, and also bearing in mind the quality of interactions during the year, the Committee concluded that PwC had applied appropriately robust challenge and professional scepticism throughout the audit to demonstrate independence, that it possessed the skills and experience required to fulfil its duties effectively and efficiently, and that the audit was effective.

Following completion of PwC's FY22 audit, the Committee was informed that the FRC's Audit Quality Review team had chosen the Group's audit for its review. The Committee has received a copy of the review and was pleased to note that it did not identify any key findings and only a limited number of improvements were required.

The Committee will formally assess PwC's performance in relation to the FY23 audit following its completion. The FY23 assessment will include the review of a number of defined Audit Quality Indicators agreed between management and PwC and approved by the Committee during the year in order to assist the Committee in its assessment of the quality of the audit going forwards.

### Safeguarding auditor independence and objectivity

The Committee recognises the importance of ensuring that the independence and objectivity of the external auditor is not impaired through the provision of non-audit services. We have in place robust policies on the use of auditors for non-audit work and the recruitment of former employees of the external auditor, which can be found on our website at [corporate.dunelm.com](http://corporate.dunelm.com). These include the following:

- Fees for non-audit services provided by the statutory auditor in any year may not exceed 70% of the average fees for the Group statutory audit in the three previous years.
- The auditor is prohibited from providing certain non-audit services, including almost all tax work, internal audit, corporate finance, and involvement in management activities.
- The external auditor may not be engaged to provide any non-audit services without the approval of the Committee.
- Restrictions apply to the employment of senior members of the audit team by the Company.

During the period we paid PwC £46,000 (2022: £42,000) for their review of the interim financial statements (considered to be a non-audit service). This was 12.3% of the total audit fees, and the three-year average is 12.7%. No other non-audit services were provided by the external auditor.

The Committee can confirm that the policies referred to above were complied with throughout the year and, in its opinion, the external auditor remains independent.

## Audit and Risk Committee report continued

### External audit tender

Our auditor rotation policy is that we will tender the audit at least once every ten years, we will change auditor at least every 20 years, and we will invite at least one firm outside the 'Big Four' to participate. Further to this, and consistent with the proposal set out in last year's report, the Committee commenced a competitive tender process in H1 FY23 for the FY24 statutory audit.

The Committee agreed to undertake the tender at its meeting in June 2022 and established a working group comprising the Committee Chair, Arja Taaveniku, Vijay Talwar, the CFO and the Director of Group Finance. The working group determined the process, with due regard to the FRC's guidance on audit tendering and the Government's response in May 2022 to the BEIS March 2021 consultation paper 'Restoring Trust in Audit and Corporate Governance'. It considered a range of firms and sent a request for proposal ('RFP') to five (of which three were challenger firms, and from which one challenger and one non-challenger firm declined to participate). All participating firms then met with key internal stakeholders.

Following review of the RFP responses and scorecard for each firm, together with a review of recent FRC inspection results, the working group presented its recommendation to the Committee. After due consideration, in November 2022 the Committee recommended to the Board that PwC be reappointed as Dunelm's statutory auditors from FY24, subject to shareholder approval.

The Committee considers that the Company has complied with the Competition and Markets Authority's Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the financial year under review.

### Tender scorecard criteria

The objective was to appoint the audit firm that would provide the highest quality, most effective and efficient audit for the Company. To support this, the participating firms were scored utilising the following criteria:

- **Firm level quality:** assessed with reference to AQR reports and progress made against findings.
- **Individual engagement team quality:** based on internal metrics and references.
- **Use of technology to drive speed of delivery, quality, and value:** assessed based on RFP responses and demonstration.
- **Ability of senior team to build relations and communicate complex messages clearly:** assessed via technical challenges and presentation.
- **Ability of the firm to provide holistic assurance across both financial and non-financial metrics e.g. ESG reporting:** assessed on RFP response.
- **Ability to deliver an efficient audit and value for money:** assessed based on commercial terms and in the context of scores for other scorecard items.
- **Tender quality and experience:** assessed based on RFP response and presentation.

### Overview of the tender process

June  
2022

- Committee agreed to undertake a tender process for the FY24 statutory audit.
- Working group established to manage tender process.

July  
2022

- Working group determined process and agreed objectives.
- Contact made with five potential firms, two of which declined to participate.

Aug  
2022

- Meetings arranged with three firms selected to tender.
- Tender scorecard developed.
- Timetable agreed with management.

Sept  
2022

- RFP document issued to firms.
- Announcement that formal audit tender process had commenced.
- Information shared via data room.

Oct  
2022

- RFP responses received from firms.
- Initial review of responses undertaken.

Nov  
2022

- Audit firm presentations.
- Assessment of each firm's presentation and criteria scoring.
- Recommendation by working group to the Committee and thereafter from the Committee to the Board.

Dec  
2022

- Feedback to all audit firms.
- Announcement of the outcome of the audit tender process.

## Sustainability reporting

The Committee's role is to gain assurance that the effects and consequences of climate change are being adequately reflected in our financial statements and valuations.

Last year we reported on all areas of the TCFD framework other than under the 'Metrics and Targets' b) recommendation. This year, with the support of a third-party specialist partner, management has made further progress on understanding and improving the data quality inputs into the Scope 3 calculations which has led to a revised baseline. We are reporting for FY23 on carbon emissions on a basis that is consistent with the revised baseline and are in full compliance with the TCFD recommendations.

During the year, the Committee received regular updates on progress against forthcoming sustainability-related reporting requirements including the first two IFRS Sustainability Disclosure Standards issued by the ISSB: IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures. This included horizon scanning to proactively consider timelines and the steps required to achieve compliance for each new disclosure requirement as it comes into force. We also welcomed the inception of a new ESG-specific reporting team to support the various sustainability-related workstreams across the business and ensure ongoing efficiency and clarity of reporting for disclosure purposes.

The Committee will continue to monitor developing best practice, and seek training/professional guidance when required, to ensure that it continues to effectively oversee our reporting in this area.

[See pages 40 to 47 for our TCFD report.](#)

## Risk management and internal controls

### Risk management

Whilst the Board has overall responsibility for risk management, it delegates to the Committee responsibility for assessing the effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks.

During the year, the Committee undertook the following risk management activities, which enabled it to maintain oversight and discuss risks and challenges faced by the Company:

- Reviewed principal risks and the Company's formal risk appetite statement ahead of submission to the Board for approval.
- Considered and challenged management's KRIs.
- Received regular reports and updates from the CFO as chair of the Risk and Resilience Committee on its activities during the year and on any specific matters that impacted internal controls.
- Received reports from management on developments and improvements to the control environment during the year, including implementation of a new balance substantiation system, updated controls mapping of key financial processes and continued investment in our cyber security capabilities.
- Reviewed internal and external audit reports and progress on delivering management actions.
- Received updates on improvements to fraud monitoring and reporting following the conclusion of the annual fraud risk assessment.
- Reviewed progress on improving business continuity plans.
- Received updates on data protection, anti-bribery, material litigation, business continuity and whistleblowing (see page 72 for more information about our Whistleblowing policy).
- Noted that a satisfactory insurance programme is in place.

In addition, there was continued focus on IT systems, cyber security and data protection by way of presentations to the Committee from the Chief Technology and Information Officer and Head of Cyber Security. The Committee welcomes the ongoing improvements in these areas in line with the priorities previously identified as requiring focus.

The Committee considers that the processes in place to manage risk by the Board and management are robust and working effectively.

### Internal control framework

Management is responsible for establishing and maintaining an effective system of internal controls and the Committee has responsibility for ensuring the effectiveness of those controls.

In the last two years there has been a continuous improvement in the effectiveness of our control environment, which commenced following an internal controls 'health check' completed by KPMG in FY20. We continue to invest in the modernisation of our key business systems to ensure that we have the right foundations in place to support our ambitious strategic growth plans and the Committee continues to monitor progress.

The Group has established internal controls and risk management systems in relation to the process for preparing consolidated financial statements. Examples of the controls in operation include regular balance sheet reconciliations, monthly analysis and reviews, technical accounting papers and review and approval of externally reported financial information.

### Internal audit

The internal audit function provides independent and objective assurance to all levels of management up to the Board. Its responsibilities include evaluating and reporting on the adequacy and effectiveness of the systems of risk management and internal controls. Since December 2019, the function has been outsourced to KPMG.

## Audit and Risk Committee report continued

KPMG's purpose, scope and authority are defined within its charter which is approved by the Committee annually. The team develops an internal audit plan for the year, with input from management, that is structured to align with the Group's strategic priorities and key risks and is approved by the Committee. The plan is reviewed periodically throughout the year to confirm it remains relevant.

Each review concludes with a formal report with graded recommendations, management responses and actions. These are communicated to the Committee by KPMG, and rigorously tracked through to completion. The Committee as a whole and the Committee Chair each meet with KPMG without management present on a regular basis to allow for open discussion.

During the year the Committee carried out a review of the effectiveness of the internal audit function. This was undertaken by way of a questionnaire, and feedback was sought from members of the Committee and senior management. The Committee concluded that the function continues to operate effectively.

### FRC review of annual report and accounts

The FRC's Corporate Reporting Review team carried out a review of the FY22 Annual Report and Accounts during the year, with no queries raised. The FRC noted some matters that could be improved in future reporting, and these have been duly considered and addressed as appropriate.

The FRC requests that in reporting on this engagement we make clear the limitations of their review, namely that it was based solely on the Annual Report and Accounts and did not benefit from a detailed knowledge of our business, or an understanding of the underlying transactions entered into. They also noted that their review provided no assurance that the report and accounts are correct in all material respects and that the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. Finally, it is noted that none of the FRC, its officers, employees or agents accept liability for reliance on their letter by the Company or any third party, including but not limited to investors and shareholders.

### Committee effectiveness

The effectiveness of the Committee was considered as part of this year's Board evaluation process, more details of which can be found on page 78. The review concluded that the Committee continues to operate effectively and having considered the findings, it was agreed that particular areas of focus during the forthcoming year should be:

1. Continuing to assess our approach to internal audit;
2. Continuing to focus on assurances around internal controls, fraud and non-financial KPIs, including sustainability;
3. Building a strong relationship with the new external audit partner.

#### Internal audit reviews undertaken in FY23

KPMG conducted the following risk-based internal audit reviews in FY23:

Internal audit review	Overview of scope
<b>General IT controls</b>	Reviewed general IT controls processes and an assessment of their effectiveness.
<b>Purchase to pay</b>	Considered purchase to pay processes to help ensure that the risks in this area are appropriately managed.
<b>Supply chain</b>	Focused on core risks in the stock supply chain.
<b>Stock return</b>	Reviewed the processes and controls designed to manage risks related to stock returns.
<b>Review of ESG processes - phase 1</b>	Considered our ESG processes and controls relating to strategy, materiality and target setting activities.
<b>Code of Conduct</b>	Assessed the existing controls around employee behaviours.
<b>Independent programme assurance</b>	Focused on delivery of projects during the year specific to internal control improvements.