

AUDIT COMMITTEE REPORT



DEAR SHAREHOLDER

The Audit Committee has been established by the Board and consists entirely of independent non-executive Directors. The primary role of the Audit Committee is to maintain the integrity of the financial reporting of the Group and to ensure appropriate risk management and internal control procedures. To enable the Audit Committee to fulfil this role, its main responsibilities include:

- considering and making recommendations to the Board, and ultimately shareholders for approval, of the appointment of the external auditor, the audit fee, initiating tender processes in accordance with regulatory requirements, and any questions relating to the resignation or dismissal of the external auditor;
- assessing annually the independence and objectivity of the external auditor, its compliance with regulatory requirements and authorising the provision, if any, of non-audit services;
- monitoring the integrity of the half-year and annual Accounts and related formal Company announcements, and reviewing significant financial reporting judgements contained within them, before their submission to the Board;
- discussing with the external auditor issues and reservations, if any, arising from the interim review and final audit and any other matters the external auditor may raise;
- reviewing and approving the terms of the management representation letter addressed to the external auditor;

- reviewing the effectiveness of the internal audit function; considering the major findings of internal audit activities and management's response; ensuring co-ordination between the internal audit function and the external auditor and ensuring that the former is adequately resourced and has appropriate standing within the Group;
- reviewing the effectiveness of the Group's internal controls and risk management systems ensuring that the process is active and dynamic;
- understanding the strategy at both Group and operational levels to ensure that business risks and other relevant issues are effectively identified and communicated to the Board;
- ensuring the Company's corporate ethics, anti-bribery and compliance procedures are up to date in terms of addressing the potential risks of fraud and misconduct;
- assessing the Audit Committee's capabilities in relation to diversity, risk experience and the financial expertise of its members;
- understanding the implications of forthcoming changes to accounting standards, including the new revenue recognition standard to be implemented from 2018;
- assessing potential IT, cyber security and social media issues in order to manage the Company's reputational and business continuity risks;
- reviewing the Group's Whistle-blowing Policy, to ensure that appropriate procedures are in place for employees to raise, in confidence, any concerns that they may have relating to suspected malpractice, illegal acts, omissions or other unethical corporate conduct, regarding financial or other matters; and ensuring that arrangements are in place for investigation of such matters and follow-up action; and
- considering any other topics specifically delegated to the Committee by the Board from time to time.

The Audit Committee is required to report its findings to the Board, identifying any matters which it considers that action or improvement is needed, and to make recommendations as to the steps taken.

COMPOSITION OF THE AUDIT COMMITTEE

Member	Appointment date
Giles Kerr (Committee Chair)	2 September 2013
Celia Baxter	2 September 2013
Andy Hammett	8 April 2011

Susan Brennan was appointed to the Committee on 1 January 2016.

There was full attendance at each of the three meetings of the Audit Committee held in 2015.

Two members constitute a quorum for the Audit Committee. The Group Company Secretary acts as Secretary to the Audit Committee.

Collectively the members of the Audit Committee have significant commercial and financial experience at a senior management level. Giles Kerr has the recent and relevant financial experience required by the UK Corporate Governance Code to chair the Audit Committee. For details of the qualifications of members of the Audit Committee, please refer to the Board Directors' biographies shown on page 39.

AUDIT COMMITTEE'S TERMS OF REFERENCE

The Board expects the Audit Committee to have an understanding of:

- the principles, contents, and developments in financial reporting, including the applicable accounting standards and statements of recommended practice;
- the key aspects of the Group's operations, including corporate policies, its products and services, Group financing, and systems of internal control;
- the matters that could influence or distort the presentation of accounts and key figures;
- the principles of, and developments in, company law, sector-specific laws and other relevant corporate legislation;
- the roles of internal and external auditing and risk management; and
- the regulatory framework for the Group's businesses.

The full Terms of Reference of the Audit Committee may be found on the Company's website.

ACTIVITIES OF THE AUDIT COMMITTEE

The Audit Committee met on 19 February 2015 to consider the 2014 year-end report and during the subsequent 12 months conducted the following business on the meeting dates indicated below:

Meeting date	20 July 2015	22 October 2015	22 February 2016
Standing items	<ul style="list-style-type: none"> Considered the external auditor's Interim Review for the half-year ended 30 June 2015. Reviewed and approved the terms of the management representation letter addressed to the external auditor. Reviewed key accounting judgements. Discussed the Group's Announcement of the 2015 Interim Results together with the slides for the analysts' presentation. Reviewed and agreed the basis for going concern to be adopted for the 2015 Interim Results. Received and considered an internal audit activity report, which provided an update on ongoing matters under review by Internal Audit and the Audit Committee. Reviewed the Group's Treasury policies and approved an updated policy document. Discussed the Group's Tax policy as set out on page 23. Appointed PwC to perform an external review of the Group's Internal Audit function. 	<ul style="list-style-type: none"> Discussed and approved the external auditor's audit planning report, including the scope of work, audit approach and fees for the 2015 audit. Considered potential areas requiring key accounting judgements. Considered the appropriate level of materiality and noted the implication of applying different levels of materiality; the Audit Committee agreed to reduce the level to 7.3% of profit before tax excluding goodwill impairment and impairment of assets held for sale. Received an update from the external auditor on accounting, reporting and governance developments. Received and considered a report from PwC on the provision of Internal Audit within the Group and agreed a number of follow up audits to be undertaken. Undertook a performance evaluation of the Audit Committee. Carried out an appraisal exercise on the effectiveness of the external audit process. Reviewed and updated the Audit Committee Terms of Reference. Reviewed the Group Whistle-blowing Policy and agreed no changes were required. Discussed the new viability statement and agreed the process to comply with the new requirements. Considered the retendering of external audit services, which is discussed in detail on page 51. 	<ul style="list-style-type: none"> Reviewed and accepted the Report to the Audit Committee on the 2015 audit made by the external auditor. Reviewed key accounting judgements, including consideration of those significant issues outlined on page 50. Considered the materiality of any unadjusted audit findings. Reviewed and discussed the Group's Preliminary Announcement and the Annual Report & Accounts 2015. Reviewed and agreed the viability statement on page 25. Reviewed and agreed the going concern basis to be adopted for the 2015 Accounts. Approved the Audit Committee Report for 2015. Reviewed the effectiveness of the Group's risk management and internal control systems and disclosures made in the Annual Report & Accounts 2015. Reviewed the Notice of Meeting for the AGM 2016 and the Proxy Form for the AGM 2016. Received and considered a report presented by the Group Finance Director, which included the proposed 2016 internal audit plan, and approved the Group Internal Audit Charter. Held separate private meetings with the external auditor and Internal Audit¹, without executive management being present.

The Audit Committee normally invites the Non-executive Chairman, Group Chief Executive, Group Finance Director, Group Financial Controller and senior representatives of the internal audit function¹ and the external audit firm to attend its meetings, although it reserves the right to request any of these individuals to withdraw from any meeting.

The Audit Committee also holds separate discussions with the internal audit function¹ and the external auditor without executive management being present. In addition, the Chairman of the Audit Committee holds separate meetings with the internal and external auditors during the course of the year to discuss both routine and business-relevant matters.

Periodically, the Audit Committee's Terms of Reference are reviewed to take into account current views on good practice and any recent amendments to the UK Corporate Governance Code. In October 2015, the Audit Committee adopted its Terms of Reference, following their approval by the Board of Directors.

¹ As set out on page 52, the Group engaged the services of PwC to perform certain Internal Audit procedures during 2015.

AUDIT COMMITTEE REPORT CONTINUED

SIGNIFICANT RISKS CONSIDERED BY THE AUDIT COMMITTEE

Significant risks considered by the Committee

Goodwill impairment

The carrying value of goodwill relies on assumptions and judgements made by executive management.

Management performed an annual impairment assessment at 31 December 2015 for all Cash Generating Units ("CGUs") to which goodwill is allocated.

How the risk was addressed by the Committee

The Audit Committee recognises the carrying value of goodwill as a key area of judgement and as such closely reviews executive management's assumptions at both year-end and the half-year.

An impairment loss of £18.8m has been recognised in relation to the full carrying value of goodwill allocated to the GA CGU, the Group's high precision machined component operation based in Wisconsin, USA. As noted in the Annual Report & Accounts 2014, visibility of "off-highway" land vehicles for use in agricultural markets and mining operations was less clear as the slowing GDP growth rate in China impacted commodity prices. During 2015 this has led to lower activity levels than had previously been anticipated at GA which intensified in the second half of the year and significantly reduced visibility of a possible reversal to the current cyclical down trend. Hence, the value in use assessment indicated that, as at 31 December 2015, the GA CGU no longer had sufficient headroom over its carrying value of goodwill.

In the case of the Thermal CGU, its recoverable amount exceeded its carrying value by £9.5m. However, whilst the business has been trading in line with the expectation set out in the Senior plc Annual Report & Accounts 2014, the Directors acknowledge that a reasonable possible change in the current assumptions of a further 24% reduction in the risk adjusted cash flow projections would result in the recoverable amount of this CGU reducing to a level comparable with its carrying value. Factors that could lead to lower cash flows than currently estimated over the initial five-year period include: not meeting customers' expectations for quality and on-time delivery performance which would result in additional rework and inspection costs to be incurred; not securing sufficient new business with existing customers; and not introducing sufficient new growth customers.

In the case of the LPE and Senior Flexonics Upeca CGUs, their respective recoverable amounts exceed their carrying values by £15.9m and £16.0m. However, during the year and in particular in the second half of 2015, lower activity levels than previously anticipated have been experienced in the Industrial Process Control market due to the down-trend in oil and commodity prices. While this has adversely affected trading levels for LPE and Senior Flexonics Upeca in 2015, their mid-term expectations over the initial five-year period indicate a reversal to the current cyclical slow-down for their markets and prospects. The Directors acknowledge that a reasonable possible change in the current assumptions of a further 27% and 32% reduction in their respective risk adjusted cash flow projections would result in the recoverable amounts of these CGUs to reduce to a level comparable with their carrying values.

Following the annual impairment assessment of all other CGUs, the Audit Committee was satisfied that no additional charge for impairment of goodwill was required.

Acquisition accounting

The Group acquired 100% of the issued share capital of Lymington Engineering (LPE) Limited on 31 March 2015 for a total consideration of £44.6m and Steico Industries, Inc. and its trading facility on 17 December 2015 for a total consideration of £60.3m. There is judgement in determining the valuation of the intangible assets and associated goodwill with the acquisitions.

The Group recognised goodwill of £17.1m and intangible assets of £27.9m on the acquisition of LPE. The Group recognised goodwill of £21.2m and intangible assets of £28.4m on the acquisition of Steico. The Audit Committee held discussions with executive management regarding the procedures performed to fair value the assets and liabilities acquired. The Committee noted the use of external valuation experts in order to form the necessary judgements.

The external auditor provided the Audit Committee with details of the audit work performed to assess that the assets and liabilities are held at fair value.

The Audit Committee was satisfied that the assumptions used were appropriate and that the assets and liabilities are valued at fair value.

Provisions

Provisions or accruals are held where management considers there is an obligation, payment is probable and the amount payable can be reliably estimated.

Provisions held by the Group include but are not limited to:

- those held against inventory; and
- central UK and US tax provisions.

The Audit Committee considered the basis upon which management had made its accounting judgements to determine the level of provisions. These were further discussed with the external auditor.

The Audit Committee believes there are no reportable issues arising from these significant areas of judgement.

EXTERNAL AUDIT

Independence of the external auditor and policy on non-audit services

To fulfil its responsibility regarding the independence of the external auditor, the Audit Committee reviewed:

- a report from the external auditor describing the arrangements that had been made to identify, report and manage any conflicts of interest and to maintain its independence;
- the overall extent of non-audit services provided by the external auditor; and
- the FRC's Audit Inspection Unit public report on Deloitte.

The Audit Committee's policy in respect of services provided by the external auditor is as follows:

- the external auditor is invited to provide services which, in its position as auditor, it must or is best placed to undertake. This includes formalities relating to borrowings, shareholder and other circulars, various other regulatory reports and certain work in respect of larger acquisitions and disposals;
- the auditor may provide tax compliance and advice where it is best suited. In all material cases such work is put out to tender; and
- other services may not be provided where precluded by ethical standards or where the Audit Committee believes that it would compromise audit independence and objectivity.

All proposed contracts for services to be provided by the auditor in excess of £25,000 require the Audit Committee's approval.

In 2015, the level of non-audit work undertaken by Deloitte slightly decreased, as the Group reviewed fewer of its tax arrangements and undertook fewer projects which required advice and assistance from professional advisers. Fees for each category of non-audit work undertaken in the year are shown in the table below:

	Fees £m
Other tax advisory services	0.2
Total non-audit fees	0.2
Non-audit fees as a % of total audit fees	25%

The Audit Committee considers that it was beneficial for the Company to retain Deloitte for this non-audit work because of the firm's expertise in this area and knowledge of the Group. The Audit Committee continues to closely monitor the nature and level of such non-audit work, in order to balance objectivity and value for money.

Policy on tendering

The Committee notes that the transitional guidance on audit tendering issued by the FRC indicated that the Company should tender the audit, at the latest, at the time of the next audit partner rotation currently scheduled for 2019. The Committee also notes the final Order from the Competition & Markets Authority (which applied for financial periods beginning on or after 1 January 2015) and the new EU Regulation under which it is likely that audit firms in the UK will need to rotate every 20 years with a tender after 10 years. The transition rules set out in the Order and the EU Regulation mean Senior is required to rotate auditors by 2023. During 2015 further EU guidance became available detailing the prohibited non-audit services such as tax services, which Deloitte will be unable to perform after 31 December 2016. In light of this new guidance and the current market practice to tender audit services before the FRC deadline, the Board has decided to put the audit out to tender in the second quarter of 2016.

Deloitte will continue to be the Group's auditor, subject to shareholder approval, for the year ending 31 December 2016, but due to the longevity of Deloitte's appointment they will not be invited to tender and therefore new auditors will be identified for the year ending 31 December 2017. A hand over process will take place around the 2016 year-end.

The Audit Committee will be responsible for the tender process which will begin in March 2016, with a selected number of audit firms receiving a formal invitation to tender. These audit firms will be selected on the basis of their appropriate experience, expertise and resources to perform the audit to a high standard.

The tender process will involve access to a data room, detailed meetings with management and selected site visits. The Audit Committee will then conduct final interviews and selection with the shortlisted firms and select the firm to be recommended to shareholders at the 2017 AGM.

Assessment of external audit effectiveness

As in prior years, the Audit Committee reviewed the effectiveness of the external auditor process, by assessing a range of key areas. In 2015, the Secretary presented the Audit Committee with a framework of questions to facilitate a debate and to assist the Audit Committee in assessing the level of auditor effectiveness. The framework required Audit Committee members to consider which areas of performance needed future focus by the auditor, the areas where the auditor was meeting expectations and those where the auditor was considered to have a special strength.

The Audit Committee discussed: the audit partner and the team as a whole; the audit planning approach and its execution; the role of executive management in the audit process; communications by the auditor to the Audit Committee and how it supported the work of the Audit Committee. The Audit Committee also discussed what insights the auditor had provided and where it had added value to the overall audit process. The Committee concluded that the auditor had challenged the thinking of the Company and the Audit Committee on a number of significant issues and maintained its independence.

Feedback about the effectiveness of the audit process from the local management teams was also considered by the Audit Committee. Following completion of the assessment process, the Audit Committee concluded that it is satisfied with the effectiveness of the external auditor; as a consequence the Audit Committee has recommended to the Board that Deloitte LLP be re-appointed as auditor for 2016.

AUDIT COMMITTEE REPORT CONTINUED

INTERNAL AUDIT

The Audit Committee is required to assist the Board in fulfilling its responsibilities relating to the effectiveness, resourcing and plans of the Group internal audit function.

2015 was a transitional year for the Group's Internal Audit function. In January 2015, the Group's Head of Internal Audit gave notice of his decision to leave the Group, to pursue a new opportunity, and then left the Group at the end of March. Rather than immediately replacing this role, the Audit Committee, along with the Group Finance Director decided to take the opportunity to undertake a benchmarking review of Internal Audit within Senior and engaged PwC to perform this review. The scope of the review covered the following areas:

- Organisational strategy
- Human resources
- Working practices
- Communication and reporting
- Knowledge management
- Performance management
- Use of technology

The review concluded that the Group's approach to Internal Audit was fit for purpose and in line with that to be expected of similar sized companies within the FTSE 250, but that it would benefit from a targeted 'back to basics' refresh, with particular focus on financial controls.

Following the review, the Audit Committee and Group Finance Director decided to pursue a 'co-source' model of Internal Audit and engaged PwC to undertake a number of specific targeted financial control reviews during the second half of 2015.

The Audit Committee and Group Finance Director also considered the increased requirements for listed companies around risk management and continuous assessment of risk. In light of a future "co-source" model and increased regulatory requirements it was decided to create a new role for the Group of Head of Risk and Assurance. This person would report to the Group Finance Director with a dotted line to the Chair of the Audit Committee and be responsible for overseeing the risk management activities of the Group and Internal Audit. This role has now been filled.

As set out on pages 26 to 31, the Group has also significantly improved its risk management procedures during the year and these have been reviewed by the Audit Committee.

The Non-executive Directors are actively encouraged to visit the Group's operating businesses unaccompanied by Executive Directors. This enables them to meet the local management teams and employees and also undertake site tours to review matters including production methods, health and safety and the status of internal audit findings. In 2015, a total of 18 site visits were undertaken by the Chairman and Non-executive Directors. These visits by the Non-executive Directors are viewed by the Audit Committee as making a positive contribution to the internal control framework.

CONCLUSION

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its Terms of Reference. At its meeting held on 22 February 2016, the Audit Committee considered each section of and the Annual Report & Accounts 2015 as a whole, as proposed by the Company; it reached a conclusion and advised the Board that it considered the Annual Report and Accounts 2015 to be fair, balanced and understandable and that it provided the information necessary for shareholders to assess the Company's business model and strategy. The Chairman of the Audit Committee will be available at the AGM 2016 to answer any questions about the work of the Committee.

APPROVAL

This Report was reviewed and approved by the Audit Committee and signed on its behalf by:

Giles Kerr

Chairman of the Audit Committee
26 February 2016