



Audit and Assurance Policy Statement

The Coats Group plc (or “the Group” or "Coats") Board and Audit and Risk Committee supports the publication of an Audit and Assurance Policy. In response to the BEIS consultation on “Restoring Trust in Audit and Corporate Governance”, and our desire to take a proactive stance, we have produced the following statement which outlines in all key areas our approach to audit and assurance within the Group, including intended future developments.

This Audit and Assurance Policy (“the Policy”) statement reflects our current position, and it is understood that our approach will continue to evolve over time, reflecting the final outcomes of the BEIS consultation exercise and associated regulatory reform. In-line with the ongoing consultation this preliminary document is intended to act as an engagement facilitation tool and the Audit and Risk Committee welcomes consultation with our stakeholders over the Policy and approach.

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Introduction	
<p>Rationale</p>	<p>Following the Government’s response to the BEIS consultation and our commitment to produce an Audit and Assurance Policy in our 2021 Annual Report, the Board and the Audit and Risk Committee have determined to proactively, further enhance transparency over Coats’ audit and assurance approach and frameworks via the development and adoption of an Audit and Assurance Policy.</p> <p>For the purposes of engaging with our Stakeholders this year we have set out an Audit and Assurance policy “lite” (“the Policy”) which provides a direction of travel in terms of the current assurance landscape within the Group, our key risk management and assurance frameworks. It also highlights developing areas and anticipated changes.</p> <p>The Policy aims to address the majority of BEIS recommendations as currently outlined and anticipates future updates as the recommended scope is defined following the consultation process.</p>
<p>Scope of the Policy</p>	<p>The scope the Policy is intended to cover all global operations and activities of Coats, including the recently acquired businesses that are currently being integrated within the Group.</p>
<p>Governance of the Policy</p>	<p>The Board is accountable for the Policy with responsibility delegated to the Audit and Risk Committee which is accountable for overseeing the practical implementation and shaping of the Policy. The Audit and Risk Committee will work with the Group Executive Team and consult with various management oversight committees and roles, as they do in the normal course of business in terms of execution and monitoring of the Policy. Once adopted, it is the intention that the Policy will have a three-year rolling time horizon and will be reviewed annually.</p>
<p>Current developments</p>	<p>A comprehensive assurance mapping exercise has been conducted internally in preparation of the Policy statement and used as the basis for reviewing the principal sources of assurance received by the Board and the Audit and Risk Committee. The assurance mapping focused on the key risks and controls, the sources of information and the level and nature of assurance provided. As part of this mapping exercise, the Internal Audit function also provided views over the scope and adequacy of first, and second-line assurance functions, governance structures and practical application.</p> <p>The mapping exercise was completed to identify any potential gaps in coverage of our approach to assurance, internal controls, risk reporting and risk management processes.</p> <p>Risks and controls considered included: technology changes and integration, changes in business model and strategies, suppliers and ESG related reporting requirements as well as environmental compliances risk, health and safety risks, IT and cyber security, data protection, supplier code audit risks, sustainability risks, financial risks and auditor transition risks.</p> <p>In relation to ESG assurance, we will build on our strong base of internal assurance procedures and look to commission an external advisor during 2023 to provide assurance on our future sustainability reporting.</p>
<p>Future developments</p>	<p>Going forward, the Policy will continue to evolve, documenting and updating our stakeholders on our progress and our aims and ambitions for Coats’ audit and assurance practices and frameworks. It will also provide us with an opportunity for key stakeholders to meaningfully engage with us on this topic.</p>



Risk, Internal Control and Assurance	
Approach	<p>Coats’ organisational audit and assurance structure is aligned to the three lines of defence model:</p> <ul style="list-style-type: none"> • 1st line of defence: Units / divisions - Operational management responsible for day-to-day activities of directly assessing, controlling and mitigating risks and implementing internal policies and procedures. • 2nd line of defence: Business controllership - Responsible for developing a group-wide internal control framework, developing processes and people to create a strong controls culture and performing annual assessments of compliances with internal controls. • 3rd line of defence: Internal Audit - An independent function which provides assurance, through a strategic risk-based approach, to the Board of Directors, Audit and Risk Committee and Senior Management. <p>This design supports the management of principal risks, and assurance over the information which supports decision making and the continued design of an effective internal control environment in delivering against our purpose and strategic objectives. Our Internal Audit function, which reports into the Audit and Risk Committee, provides an independent and objective view as to the robustness and effectiveness of the risk and internal control environment across all key financial and operational areas.</p> <p>The Board has overall responsibility for risk management and formally reviews the findings of the overall Internal Audit programme. The Board delegates the responsibility for monitoring the effectiveness of the systems of risk management and internal controls to the Audit and Risk Committee.</p> <p>As part of this remit the Board also sets the organisational risk appetite, reviews emerging corporate risks and mitigations, approves priorities for risk management activities and supports horizon scanning for new corporate risks.</p>
Governance matters	<p>The Audit and Risk Committee receives regular reports on the effectiveness of internal control matters and the risk registers from the Senior Management, Internal Audit and the external auditors, as part of its duty to review the Company’s internal control processes and risk management environment. This monitoring ensures timely identification of issues and formal tracking of risk management and remediation plans.</p> <p>The Group Executive Team is responsible for providing, oversight, challenge, and direction to the first and second lines of defence including review of the risk register and principal and individual risks as required. Accountability for internal control and risk management is devolved into each of the three operating divisions; Apparel, Footwear and Performance Materials.</p> <p>Features of internal control and risk management frameworks that support the accuracy and reliability of our reporting include:</p> <ul style="list-style-type: none"> • A defined and agreed approach and risk appetite which is periodically reviewed for the context in which the business operates • The identification of key internal controls and clearly defined responsibility for their effective functioning • Clear Group policies and procedures to support and ensure consistency throughout the business



	<ul style="list-style-type: none">• Clearly defined roles, responsibilities, and delegated authorities within the committees• A culture of good governance and risk management, integrity, competence, fairness and responsibility (known internally as “Doing the Right Thing”).• Where relevant risk / governance is embedded into management performance metrics• Extensive group-wide ethics and policy training• Established and utilised whistleblowing process <p>In addition to the in-house functions the Group also engages external third parties as appropriate to undertake audits or assurance activities to review the process and control environments and/or output related to areas such as; regulatory requirements (i.e. health and safety), certification standards, supplier and customer requirements, transactional support and external audit. For example, recent external assurance has been undertaken to review the supply chain, cyber security landscape, and specific financial risks. The level of external assurance obtained varies based on the nature of the scope.</p> <p>Instances where the effectiveness of internal controls are considered insufficient, or where there is opportunity for enhanced controls, these are discussed, and updates are provided when required to the Audit and Risk Committee as well as the Board. Any remediation plans, including necessary engagement of external advisors are monitored.</p> <p>The Group maintains policies and processes on a range of operational, financial, legal, people and procurement compliance issues. These sit alongside and interact with policies and procedures covering several ethics issues. These various policies and procedures apply not only to Coats but also to relations with partners, contractors, and suppliers where relevant. These policies are published and are available to all employees on the Group’s web portal. They are reviewed and updated annually, with the most recent review being completed in December 2022. For example, following the recent changes to our organisational structure, a revised delegation of authority has been rolled out across the Group in 2022.</p> <p>The policies are reinforced through contractual terms and a comprehensive Supplier Code. The Supplier Code and vendor onboarding process contains safeguarding initial due diligence processes (through an automated vendor data management system), onboarding, training, ongoing compliance, and auditing. We have specifically engaged with an external assurance provider to perform rolling compliance audits across our supplier base.</p> <p>Compliance with internal policies is monitored through the Internal Audit function, which includes a dedicated risk questionnaire, as well as routinely through the second line of defence. Coats implements an extensive annual and new-joiner training regime for its people, with enhanced training for managers and customer facing and procurement roles.</p> <p>Completion rates for compulsory training are monitored regularly by the Group Executive team, with any non-compliance followed up as a matter of course. Compulsory annual training is extensive and consists of areas such as competition law, health and safety, and cyber security.</p> <p>The Group actively maintains a whistleblower system through a dedicated “Speak Up” inbox and a 24/7 whistleblower hotline, which is maintained by an external provider. The whistleblowing system enables employees and others who are aware of, or suspect, unethical behaviour to report it confidentially. Awareness of the system, together with</p>
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	<p>the policy, is publicised through an ongoing “Doing the Right Thing” campaign which operates at a Group and local level.</p>
<p>Internal control environment / effectiveness</p>	<p>The internal control framework includes financial, operational, compliance and risk related controls. These are designed to manage and minimise risks that would adversely impact the business and its stakeholders.</p> <p>Internal controls and key processes are defined within the key control framework (see later for more details) and are available to management and employees. To provide comfort of their practical application, as highlighted, the Group uses the three line of defence model. The systems cover both monitoring and oversight controls at a regional and divisional level, comprising business leadership and direction.</p> <p>There remains an ongoing process to standardise the key policies and procedures around the newly acquired businesses in addition to supporting and ensuring they are embedded to support the divisional restructure.</p> <p>Key controls are assessed on a regular basis for both design and operational effectiveness. It is targeted that on a rolling basis, the second line of defence covers all material operating units for all key controls, on a rolling basis. Issues, insights and future actions arising out of these assessments, where appropriate, are reported back to the Audit and Risk Committee and Board.</p> <p>As part of the Audit and Risk Committee’s oversight of the internal controls ecosystem the Internal Audit function perform a review incorporating; operational management, financial management, executive management with an independent assessment of material risks and internal controls. This approach reinforces assessment of the ongoing effectiveness of the Group’s system of internal controls.</p> <p>Furthermore, a bi-annual assessment of the general internal control environment is prepared by the second line of defence and presented to the Audit and Risk Committee. This assessment considers a variety of trends, quantitative factors (e.g. internal audit ratings, key control testing outputs, timeliness / quality of financial reporting) and qualitative factors (e.g. training sessions completed, evidence of control reviews at leadership team meetings, whistleblowing activity) to give a practical view of the state of internal controls within the business.</p> <p>At the meeting held in December 2022 The Audit and Risk Committee confirmed that the effectiveness of the Group’s systems of internal controls remain appropriate to the Group’s circumstances.</p>
<p>Internal controls scope and key focus areas</p>	<p>The primary purpose of the Key Control Framework is to provide the Board and Group Executive Team with a holistic and overall sense on how Coats’ controls and compliance environment is operating. The controls environment is broadly modelled on a SOX-style framework that was introduced in 2019.</p> <p>There are 116 key controls which are apportioned into 56 critical controls and 60 non-critical controls. The critical controls are identified based on five drivers – value integration, cash risk, statutory mandate, reporting criticality and anti-fraud. A bi-annual update is provided to the Board which covers testing results and improvement action implementation status.</p> <p>Efforts have focussed on key controls relating to cyber, IT systems and data, as well as embedding the key 116 controls across our newly acquired businesses (which remains ongoing).</p>



<p>Risk framework</p>	<p>Our risk framework is based around four categories of principal risks (strategic, external, operational and legacy), as well as key and emerging risks which are used to build the Group Risk Register. The Board has defined 11 principal risks with reference to the Group’s purpose, strategic objectives, and operating environment, as well as several additional key and emerging risks within the Group Risk Register.</p> <p>The principal risks are highlighted from page 42 onwards of the annual report.</p> <p>Throughout the year, the Board has kept each of the principal risks under review with support from the Group Executive Team and Group Audit and Risk Committee. The Board also undertook in the current year a comprehensive assessment of the principal risks facing the Group, along with the current levels of risk tolerance for each of those risks. The work of the Internal Audit function provides assurance that risks, and risk management activities, are reviewed and conducted regularly and consistently throughout the Group.</p>
<p>Internal audit function</p>	<p>The Internal Audit function delivers internal assurance over the governance and risk management structures. It helps the Board to realise its objectives by bringing an independent, systematic, and disciplined approach to evaluate, and assure the effectiveness of systems, processes and controls that align to the strategic objectives and underpin the culture and governance and risk management frameworks. The Group businesses understand the role of internal audit, the value that an effective third line of defence provides as well as the importance of upholding an ethical culture.</p> <p>The Head of Internal Audit agrees the function’s annual programme of work (based on 5-year audit coverage matrix), in advance with the Audit and Risk Committee. This plan considers the strategic objectives of the business, principal risks in addition to any other external and internal material changes which may impact operations. This is reviewed by the Audit and Risk Committee to ensure it achieves appropriate coverage of risks, encompassing priority areas and insights from the last cycle. At each Audit and Risk Committee meeting, key findings from internal audit reports, detailed reports from management, and implementation progress are monitored.</p> <p>The Internal Audit function incorporates the relevant recommendations into future work plans in agreement with the Audit and Risk Committee. For control findings identified as part of any investigation or audit, remediation plans are put in place and the Audit and Risk Committee reviews these as well as the adequacy of the implementation measures. Findings are graded by severity and reported to the Audit and Risk Committee.</p> <p>Our assurance activities in 2022 covered a broad range of areas, including our principal risks as well as the following areas; internal controls assurance, fraud and financial crime assurance, technology assurance, ESG assurance, key performance indicators assurance, as well as alternative perform measures assurance.</p> <p>In 2022 our Principal Risks were categorised as; M&A, customer expectations, talent – attraction and retention, economic / geopolitical, cyber, climate change, suppliers, environmental, health & safety, bribery & anticorruption, and legacy – environmental.</p>
<p>Future developments</p>	<p>Our approach to risk and internal controls will continue to evolve as regulations, changes in our operational base, technical innovations, as well as the change in external auditor provide both challenges and opportunities for efficiencies, advancements, and improvements to decision-making frameworks and to our disclosures. As an example, further work is ongoing to formally align to the impending UK-SOX implementation.</p>



	<p>Supplier payment terms and the design and rollout of automated controls testing will be the subject of our work in 2023.</p> <p>ESG assurance remains a key focus for the Audit and Risk Committee and the Board. To date, assurance processes have been focused on independent reviews performed by the internal financial team. It is however, the intention to commission external assurance over the key sustainability data from 2023 onwards. Initially this assurance will be on a limited and private basis and focused on the 2022 data which will form the baseline for our newly published sustainability mid-term targets.</p> <p>Oversight of risk and internal controls will adapt to reflect these changes in underlying activity to provide sight, comfort and assurance to the Group Executive Team, the Audit and Risk Committee, and the Board, that the overall controls and risk management frameworks are operating effectively.</p> <p>In line with this the Internal Audit workplan will continue to be refreshed on an annual basis to provide continuing coverage of Coats' evolving strategic activities and any pressing issues, as well as being delivered in an effective manner, with the necessary resources provided by the Internal Audit team and/or external providers as needed.</p> <p>The second line of defence will continue to work to embed controls and compliance best practice into the unit / divisional first line of defence, oversee consistency of approach across the Group (including automation of controls), accelerate acquisition integration (in the areas of controls and compliance) and focus on any particular risk areas.</p> <p>It is anticipated that further investments in new skills and technology will facilitate a certain degree of automation, enhanced efficiency and data analytics in the audit and assurance process. Recruiting talent into this area of the business is an ongoing challenge since the pandemic. However, we look forward to taking every advantage enabled by being typically fast follow-on adopters of technological advancements.</p>
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External Audit

<p>Audit tender process</p>	<p>In line with the provisions of the Competition & Markets Authority’s Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit and Risk Committee Responsibilities) Order 2014, we commenced the process of external audit tendering this past year.</p> <p>Given Deloitte LLP’s appointment as Group auditor in 2003 the Group needed to transition to new external auditors. Accordingly, the Board undertook a competitive tender process for the external audit during 2022. The tender process considered both major and challenger firms, and was deemed comprehensive and fair, with multiple opportunities for potential suppliers to demonstrate their insights, capabilities, and levels of resourcing.</p> <p>The external auditor selection process spanned a period of 6 months from May 2022 (initial launch of RFP) to October 2022 and covered approaches to audit quality, knowledge of sector and experience of team, inspection results, commercials, ability to provide insights, use of data during the audit, as well as potential or perceived conflicts of interest.</p> <p>It was announced in December 2022 that Ernst & Young LLP (E&Y) would be appointed the new Group auditor, for the 2023-year end onwards and as such 2023 would mark the transition from Deloitte LLP to E&Y.</p>
<p>Scope of External Auditor’s work</p>	<p>As part of the planning for each year’s audit the Audit and Risk Committee discusses with the external auditor the scope of the statutory audit. Due to the geographically widespread nature of the Group, the audit is subject to scoping decisions on overseas components.</p> <p>The focus in 2022 for the Group audit scope was on 14 overseas components spread across four continents, which were subject to full audits. Additionally, seven components were subject to specified audit procedures. These components were selected to provide an appropriate basis for undertaking the audit work to address the risks of material misstatement.</p> <p>The 14 overseas components and UK components, subject to full audit scope, accounted for:</p> <ul style="list-style-type: none"> • 65% of the Group’s net assets • 81% of the Group’s underlying profit before tax within the group’s trading components; and • 67% of the Group’s revenue. <p>If including the specified audit procedures performed, the external audit covers over 76% of the Group’s net assets, 91% of the Group’s adjusted profit before tax within the Group’s trading components, and 77% of the Group’s revenue.</p> <p>At the Group level our auditors also tested the consolidation process and carried out analytical procedures to confirm the conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.</p> <p>Each year the Senior Management in consultation with the Audit and Risk Committee review the strategic objectives, principal risks and changing regulatory and market landscape to assess whether the audit scope should be extended to include upcoming areas of importance which sit outside of the materiality thresholds. Any such extensions</p>



	<p>to scope are agreed and formalised between the auditor and the Audit and Risk Committee.</p> <p>Going forwards the Audit and Risk Committee expect the external auditor to continue with this approach and broad coverage for the period of this Audit and Assurance Policy, assuming there are limited further changes in the period to the structure of the Group.</p>
<p>Materiality considerations in reporting preparation</p>	<p>Whilst preparing group annual reporting and related statements, the impact information could reasonably be expected to have on users of its financial statements is considered. The auditor defines materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. Materiality is considered both in planning the scope of the audit work and in evaluating the results of the work itself.</p> <p>The Audit and Risk Committee provides oversight of this process by drawing on its knowledge and experience of Coats’ operations, events and conditions as well as the business and general environment to identify whether, in its view, all material information has been provided in the financial statements, and with appropriate prominence. Last year materiality for the group financial statements was determined consistently with prior years at US\$ 9.9m, or 0.6% of group revenue.</p> <p>This benchmark was deemed the appropriate measure to reflect the focus of users of the financial statements.</p> <p>Performance materiality is set at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.</p> <p>In determining performance materiality, the auditors considered their history of auditing Coats, including the lack of significant deficiencies and errors identified in previous years. As a result of the reduction in uncertainty and no material deterioration of the control environment noted, performance materiality was raised to 70% in 2022.</p> <p>Any audit differences above \$0.5m are reported to the Audit and Risk Committee for consideration.</p>
<p>Key developments</p>	<p>As a matter of course, findings from the audit are reported by the External Auditor to the Audit and Risk Committee. No significant findings were reported, or unadjusted misstatements made to the financial statements in 2022.</p>
<p>Future developments on External Auditor scope</p>	<p>It is anticipated that the external auditor or other specialist providers will be engaged to produce an assurance report on non-financial information and/or key performance indicators, to ensure compliance with regulatory disclosure requirements and/or as requested by the Audit.</p>



Engagement	
Consultation with stakeholders	<p>This Audit and Assurance Policy Statement is envisaged to be reviewed annually and will reflect feedback received from shareholders and stakeholders together with the plans of the Audit and Risk Committee in relation to audit and assurance landscape.</p> <p>The Audit and Risk Committee regards this first Audit and Assurance Policy Statement as a proactive first step in providing transparency and it encourages stakeholders to provide feedback on any aspect of this statement in addition to matters which they believe should be considered but are not currently included in this draft.</p>