

# AUDIT & RISK COMMITTEE REPORT



## Dear Shareholder,

As chair of the audit and risk committee, I am pleased to present this report setting out the work of the committee during 2022.

When reviewing the key metrics, financial performance, expansion of the portfolio, progress on sustainability, the improvement in employee and customer satisfaction, the performance has been impressive but add to this a year with so much uncertainty, coming out of Covid, the war in Ukraine, energy costs and overall inflation increases makes the results outstanding.

The committee supported the board in assessing the principal and emerging risks facing the group, including reviewing the group's risk management and internal control systems, overseeing the operation of the Group Internal Audit function, assessing the key accounting judgements and estimates and highlighting some of the other important topics and themes arising during the year.

## Key accounting judgements

At its June meeting, the committee received a detailed presentation from management setting out the key considerations for the interim financial statements. Discussions focused on the going concern basis of accounting, the challenge of assessing the carrying value of goodwill and right-of-use assets and reliable property valuations in light of the prevailing uncertainty.

The committee considered the key accounting judgements further at its August meeting and also received commentary from the external auditors on management's approach.

This process was repeated in the lead up to the full-year financial statements. A detailed explanation of the assessment process concerning these items is given later in the committee's report.

The committee is satisfied that in all of these matters, the accounting treatment complies with relevant IFRS, and none gave rise to disagreement between management, the external auditors or the committee.

## Assessment of whether the annual report, taken as a whole, is fair, balanced and understandable

The committee receives copies of the annual report and financial statements during the drafting stage and reviews the content, along with results announcements and investor presentations to be published by the company.

The committee ensures that the key messages communicated in the annual report and the other publications accurately reflect the company's performance and the strategy being pursued and that they are consistent with each other.

The committee is satisfied that all of the key events reported to the board by management in the course of the year, positive and negative, are suitably narrated in the annual report.

## Viability Statement

The committee received and considered the draft viability statement, reviewed and challenged the assumptions upon which the scenario analysis was based and its conclusions, and advised the board on the adoption of the statement.

## Further reporting

In the following pages, the committee sets out, in more detail, how it fulfilled its role under a range of headings, including significant accounting judgements and key sources of estimation uncertainty, external audit, internal control and risk management, internal audit, whistleblowing, compliance framework, health and safety and insurance programmes, information security and data protection.

## In conclusion

My thanks to my colleagues on the committee, the management team, external and internal auditors and advisors to the company who assisted the committee in its work in 2022.

## Cathriona Hallahan

Chair  
Audit and Risk Committee

## Committee Meetings and Attendance

The committee met five times during 2022.

Member	Attendance
Robert Dix *	2/2
Cathriona Hallahan	5/5
Margaret Sweeney	4/5
Elizabeth Mc Meikan	5/5

\* Robert Dix retired from the Board on 28 April 2022

All members of the committee are considered by the board to be independent.

The board considers that the committee chair has sufficient recent and relevant financial experience for the role and that there is sufficient financial and commercial experience within the committee as a whole.

See the Committee's terms of reference on [dalatahotelgroup.com](https://dalatahotelgroup.com)

## Role of the Committee

Monitor the integrity of the group's financial statements, accounting policies and key judgements made in the financial statements.
Assess whether the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for the shareholders to assess the company's position and performance, business model and strategy.
Oversee the group's relationship with our external auditor.
Review the effectiveness of the group's internal control systems.
Monitor the group's risk management systems and the identification of our principal risks.
Monitor the effectiveness of the internal audit function.
Review the group's compliance framework.
Monitor health, safety and operational risks and the group's insurance programmes.

## Significant Financial Judgements and Key Sources of Estimation Uncertainty

Matter	Significant financial judgements and key sources of estimation uncertainty
<p><b>PROPERTY REVALUATIONS</b> In line with the group's revaluation policy for land and buildings, valuations are carried out by suitably qualified professional valuers at each reporting period end.</p>	<p>The net carrying value of land and buildings at 31 December 2022 was €1,281 million (note 13) (2021: €1,089 million). The carrying value of land and buildings is determined using fair value. The calculation of fair value and the allocation of fair value to land and buildings requires judgement.</p> <p>The assumptions utilised by the valuation specialists are disclosed in note 13 to the Group consolidated financial statements and include projected cash flows for future revenue and costs, terminal value multiples and discount rates. Management has engaged appropriately qualified professional valuation specialists to determine the value attributable to land and buildings.</p> <p>Management has reported in detail to the Committee in relation to the valuation approach, as determined by suitably qualified professionals, of land and buildings at 31 December 2022. The Committee has discussed the valuation approach undertaken with management.</p> <p>Through discussion with management and considering the findings of the External Auditor, the Committee is satisfied that the property valuations at 31 December 2022 are reasonable and that the revaluation movements have been appropriately presented in the group consolidated financial statements.</p>

## AUDIT & RISK COMMITTEE REPORT (CONTINUED)

Matter	Significant financial judgements and key sources of estimation uncertainty
<p>CARRYING VALUE OF RIGHT-OF-USE ASSETS AND GOODWILL</p> <p>Detailed impairment reviews are undertaken to determine whether the carrying value of right-of-use assets and goodwill is impaired.</p>	<p>Right-of-use assets, representing the group's right to use underlying hotel assets which are operated under a lease, amounted to €658.1 million at 31 December 2022 (2021: €491.9 million). Goodwill amounted to €30.2 million at 31 December 2022 (2021: €30.8 million).</p> <p>The carrying values of hotel cash-generating units (CGUs), which contain right-of-use assets, are reviewed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, whilst CGUs to which goodwill has been allocated are required to be tested at least annually for impairment or also if there is an indication of impairment. At 31 December 2022, as a result of the carrying amount of the net assets of the Group being more than its market capitalisation, the Group tested each cash-generating unit ('CGU') for impairment as this was deemed to be a potential impairment indicator. On 31 December 2022, the market capitalisation of the Group (€728 million) was lower than the net assets of the Group (market capitalisation is calculated by multiplying the share price on that date by the number of shares in issue). Market capitalisation can be influenced by a number of different market factors and uncertainties. In addition, share prices reflect a discount due to a lack of control rights.</p> <p>Impairment reversal assessments are also carried out on the Group's CGUs where there has been a previous impairment of right-of-use assets and fixtures, fittings and equipment. When the circumstances that caused the impairment loss are favourably resolved, the impairment loss is reversed immediately in profit or loss.</p> <p>The group applies IAS 36 Impairment of Assets to determine whether a cash-generating unit with goodwill and/or a right-of-use asset is impaired and accounts for any identified impairments through profit or loss or to determine whether any previous impairment of right-of-use assets and fixtures, fittings and equipment should be reversed. On reversal, the asset's carrying amount is increased, but not above the amount that it would have been without the prior impairment loss. Impairment losses on goodwill are never reversed. Each hotel operating business is deemed to be a CGU, as the cashflows generated are independent of other hotels in the group.</p> <p>Management undertook detailed impairment reviews on a hotel-by-hotel basis, taking account of the valuations prepared by qualified professional valuation specialists and other factors. The assumptions utilised by management in conducting these analyses are disclosed in note 11 to the group consolidated financial statements and include projected cash flows for future revenue and costs, terminal value multiples and discount rates.</p> <p>The committee has reviewed the approach taken by management, as outlined in management's report to the committee, in conducting these impairment reviews and, in particular, the assumptions utilised by management. As part of their audit, the external auditor assessed the group's impairment calculations on a CGU-by-CGU basis.</p> <p>Discussions were undertaken between management and the external auditor as to the underlying assumptions. Following discussions with management and with the external auditor, the committee is satisfied that these are reasonable.</p> <p>The recoverable amount was not deemed lower than the carrying amount for any of the Group's CGUs as at 31 December 2022, and as a result, no impairment charges for right-of-use assets and fixtures, fittings and equipment were recognised in profit or loss for the year.</p> <p>In line with IAS 36, reversals of previous impairments relating to three of the Group's CGUs were recognised in profit or loss as a result of improved performance forecasts. This resulted in a reversal of previous impairment charges of €4.1 million on right-of-use assets (note 14) and €0.6 million on fixtures, fittings and equipment (note 13).</p> <p>Accordingly, the committee has concluded that the carrying value of right-of-use assets and goodwill is appropriately stated at 31 December 2022 and that the disclosures included within note 11, note 12 and note 14 of the group consolidated financial statements are appropriate.</p>

## External Audit

### Appointment

Our External Auditor is KPMG, who were appointed in 2014 and reappointed in 2016 when the company became an EU Public Interest Entity (PIE) following its admission to the main markets of Euronext Dublin (formerly Irish Stock Exchange) and the London Stock Exchange.

The External Auditor is subject to mandatory rotation after ten years from the date that the company became an EU PIE. As the ten-year limit approaches, during 2022, the committee considered an overall strategy and approach to this matter. The company has no immediate plan to tender for external audit services voluntarily.

### Evaluation

During 2022, we evaluated KPMG based on their work completed, management feedback and our review of the documentation provided to the committee.

The committee received a detailed presentation from KPMG in October 2022, setting out its strategy and priorities for the upcoming audit. This allowed the committee to provide input and monitor progress against the plan.

KPMG attend all of the committee's meetings and regularly meets the committee without management present.

The committee is satisfied that the statutory audit process and services provided by KPMG were satisfactory and effective.

### Independence

The committee assessed the auditor's independence by reviewing the information and assurances given by the auditor concerning its independence and the procedures it puts in place to safeguard integrity, independence and objectivity considerations relating to the provision of non-audit services and their fees.

The committee has implemented a procedure to pre-approve any non-audit services provided by KPMG to the company. During 2022, KPMG provided non-audit services primarily in relation to the review of the half-year financial statements and certain tax advisory services. KPMG fees for

2022 are set out in note 3 to the financial statements. Under the EU fee cap rules, non-audit services are not permitted to exceed a ratio of 70% of the average annual audit fee for the preceding three-year period. The actual ratio in respect of 2022 non-audit fees was 18%.

The company has adopted a policy in relation to the employment of former employees of the external auditor.

Taking into account our findings in relation to the effectiveness of the audit process and the independence of KPMG, the committee is satisfied that KPMG continues to be independent and free from any conflicting interest with the group.

### Internal Control and Risk Management

The board has overall responsibility for risk management, and it has delegated this task to the committee. A consideration of the group's risk register, with particular emphasis on principal risks, emerging risks and changes to risk profiles, is a standing agenda item for each meeting.

The committee reviews documentation prepared by management in this regard. Additional details on risk management are set out in the Risk Management Section.

The committee also has responsibility for the oversight of the internal structures. These are reviewed on an ongoing basis throughout the year through the consideration of internal audit reports and other relevant papers. At its October 2022 meeting, the committee considered a detailed analysis of the group's fraud management risk and control environment. An assessment of the group's high-level internal control environment was also considered in January 2023.

### Internal Audit

The committee is responsible for overseeing the scope, work and effectiveness of the group's internal audit function. Internal Audit operates to formal terms of reference. At each meeting, the committee considers the findings noted in the internal audit reviews and management's responses to matters noted.

On an annual basis, the Group Internal Auditor sets out the planned strategy, approach and scope of work for the following

year for consideration by the committee. The plan includes core internal control assurance projects along with tasks designed to provide additional controls insight and support the committee in this area. This plan is reviewed on an ongoing basis and updated at each committee meeting.

In 2022, the internal audit team expanded its assurance work through increased use of data analytic capabilities, which leveraged the group's investment in standardised business technology platforms. This will continue in 2023. Additional focus was also given to deeper analysis of the group's risk and compliance environment and supporting internal controls.

The committee meets with the Group Internal Auditor after each committee meeting without management present.

### Tax and Treasury Updates

During the year, the committee received and considered reports and presentations from management on the company's tax and treasury positions. The tax update provided an overview of existing and emerging tax risks facing the group, tax strategy and the related priorities for the coming years. The treasury update gave an overview of existing hedging arrangements, future hedging strategy and consideration of the group's treasury policy. The committee was also updated on amendments to the group's bank account strategy.

### Whistleblowing Policy

The board has approved a Confidential Disclosure Policy (Whistleblowing Policy), which is reviewed annually. A copy of the Confidential Disclosure Policy is included in the Employee Handbook, which is provided to all employees.

### Committee Oversight

During 2022, the committee considered the group's whistleblowing policy and arrangements, reviewed the whistleblowing incidents and outcomes and assisted the board in its assessment of the adequacy of these arrangements. There are no outstanding matters of concern raised by employees using the whistleblowing arrangements during 2022.

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## AUDIT & RISK COMMITTEE REPORT (CONTINUED)

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### Health and Safety and Insurance Programmes

The committee is responsible for monitoring health and safety and operational risks, and the group's insurance programmes.

#### Health and Safety

During 2022, the committee received a detailed update from management on the group's health and safety environment. The committee also met with Bureau Veritas, who completed external assessments at all hotels during 2022. The programme scope was considered, as was the plan of work for 2023.

#### Insurance & Claims

The committee receives regular reports from management on the operation of the group's public and employee liability programme, which incorporates a significant element of self-insurance. In 2022, the committee received a comprehensive briefing from management and the company's insurance brokers on the performance of the overall insurance programme, including the claims environment and claims status. The committee also considered the group's insurance cover and associated risks, including property, business interruption, public and employer's liability, cyber, motor, travel, directors and officers, computers and engineering (lifts).

The committee is satisfied that the company has an appropriate insurance programme in place and that its operation is satisfactory.

### Compliance Framework

#### Compliance with S225(2) Companies Act 2014

The committee carries out an annual review of the company's compliance framework and compliance with certain obligations specified in section 225(2) of the Companies Act 2014 arising from the Companies Act 2014, the Market Abuse (Directive 2003/6/EC) Regulation 2005, the Prospectus (Directive 2003/71/EC) Regulation 2005, the Transparency (Directive 2004/109/EC) Regulation 2007 and Tax Laws.

This review is based on an analysis prepared by internal audit of compliance activity during the year. During 2022, the committee reviewed the group's structures and procedures overseeing compliance with the Market Abuse Regulations, including awareness and training in this area.

The committee also carried out an annual review of the company's risk assessment and policies in relation to modern slavery, anti-bribery and corruption policy and anti-money laundering.

#### Information Security

The committee monitors the management of information security risks. The committee is aware of the increased risk profile in this area and is satisfied that the company, through its ongoing investment in information technology, continues to mitigate its information security risk (see the Risk Management section for further analysis). The group has a cyber liability insurance policy and reviews the limits and scope of this cover annually.

In May 2022, the committee reviewed a report from management on potential ransomware attacks and considered the group's position on this matter. At its October meeting, the committee considered an update from management and the group's specialist advisors on the technology risk environment, ongoing systems controls and monitoring and emerging risks in this area.

The group's IT department maintains a detailed information system risk register and has developed a comprehensive suite of information security policies and training resources supporting these policies.

#### Data Protection & Privacy

The committee has oversight of data risk management at Dalata. The structured approach to data risk management and compliance with the General Data Protection Regulation (GDPR) enables the group's compliance team to proactively respond to, mitigate and manage these risks across the group. The compliance team maintain a detailed incident register. The committee received a report from the group's

compliance team in October 2022, assessing compliance with the GDPR and setting out priorities for 2023. 46 low-level incidents were recorded in 2022, and it was noted that no incidents were reported to the relevant data protection regulator in 2022.

The group recognises the importance of ongoing training and communication to raise awareness of best practice when handling data and to help prevent personal data incidents. GDPR officers were introduced in each hotel in 2022 to lead their property in good GDPR practices, to promote GDPR awareness among colleagues and to be a point of contact between the hotels and central office.

Membership of the management-level privacy committee, which met 11 times during 2022, is comprised of senior managers responsible for personal data processing. The committee was established to supervise Dalata's risk management concerning personal data processing, accountability and compliance with the GDPR.