

## Audit Committee Report

### Overview

The Committee met four times during the year. The external auditors attended three meetings at the invitation of the Committee Chairman. The Committee also met with the external auditors without the presence of Executive Directors or management. During the year, in addition to its core responsibilities the Committee re-tendered the external audit.

### Terms of Reference

The principle duties carried out in the year were to:

Review and monitor the integrity of the Financial Statements, reviewing significant financial reporting issues and judgements which they contain, and recommend to the Board whether the Financial Statements give a fair, balanced and understandable view of the Group's assets, liabilities and financial position.

Receive reports on and keep under review the effectiveness of the internal controls and risk management processes, carry out an annual assessment of these processes and approve statements to be included in the Annual Report concerning internal controls and risk management.

Oversee the Company's relations with the external auditors and consider and make recommendations on the appointment, reappointment and removal of the external auditors.

Monitor and review the effectiveness of the internal audit programme in the context of the overall risk management system to ensure that the internal audit is operating efficiently and effectively within the organisation, review and assess the internal audit plan and reports, recommendations and management responses.

Additional duties were to review foreign exchange, interest rate and commodity hedging policies, review and approve the Group's insurance policies, review and approve new bank facility agreements and review Health and Safety policies, practices and risk management procedures.

### Financial Reporting

During the year, the Committee concluded that the Annual Report and Financial Statements, taken as whole, were fair, balanced and understandable and provided the information necessary for shareholders to assess the Group's business model, strategy and performance. During the year, the Committee considered the following key matters of judgement:

- Revenue recognition policy and the impact of IFRS 15
- Valuation of goodwill and intangible assets
- Impairment
- Pensions
- Significant non-recurring items
- The Committee considered the budget for 2020 and the business plan for 2021/22 and the debt financing arrangements at year end and concluded that the going concern basis is appropriate.

The Committee considered the future impact of IFRS 16, on lease accounting which is expected to have an immaterial impact on profit before tax but will increase assets and liabilities by circa £11-£12.0 million.

The Committee reviewed the full-year and half-year results announcements, Annual Report and Financial Statements and considered reports from the external auditors. The Committee also reviewed the Strategic Report and concluded that it presented a useful and fair, balanced and understandable review of the business.

### External Audit

The Committee considered the effectiveness of last year's external audit against five criteria, Qualification, Expertise and Resources, Effectiveness, Independence and Value. Although it concluded that the audit was effective there were several opportunities for improvement identified and the Committee decided to proceed with a re-tendering exercise.

Three firms tendered for the audit and their proposals were assessed against eleven criteria covering quality, effectiveness and value for money. PricewaterhouseCoopers LLP (PwC) were the strongest overall with a strong technology focus and the clearest plan for a high-quality audit. Accordingly, PwC were appointed to conduct the audit upon the resignation of the previous auditor and the Board is recommending their ongoing appointment at the AGM.

### Independence and Non-audit Services

During the year, the fees paid to the auditors, PwC, were £193,000 (2018: nil) for audit services, and no fees in the current or previous year for non-audit services. No services were provided pursuant to contingent fee arrangements.

The Committee reviewed and considered the following factors to assess the objectivity and independence of PwC:

- The auditors procedures for maintaining and monitoring independence, including those to ensure that the partners and staff have no personal or business relationships with the Group, other than those in the normal course of business permitted by UK ethical guidance.
- The degree of challenge to management and the level of professional scepticism shown by the audit partner and the audit team throughout the process.
- The nature of non-audit work undertaken during the year and its approval in accordance with the Audit Committee's policy on non-audit services.
- A report from PwC that they have adequate policies and safeguards in place to ensure that auditors' objectivity and independence is maintained.

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### Internal Audit

A programme of rolling internal control and risk reviews was monitored by the Committee together with follow up actions required. The Committee reviewed the effectiveness of internal audit procedures and agreed improved procedures in terms of review of agreed actions and planning of reviews.

### Risk Management and Internal Controls

Group management prepared a report for the Committee's consideration that identified the risks and uncertainties to which the Group is exposed, the procedures in place to mitigate those risks and uncertainties and the potential impact on the Group. The Committee reviewed this report and reported its views to the Board. Following this review, the Committee, is satisfied that the Group has in place effective internal control systems and risk management.

The principal risks and uncertainties to which the Group is exposed are set out in the Strategic Report on pages 21 and 22.

The Committee remains satisfied that the Group's system of internal control is appropriate for a Group of the size and nature of the Group and the Committee's current view is that an independent internal audit function is not required at this time. The Committee will monitor the situation as the Group continues to expand.

### **Bob Beveridge**

Chairman of the Audit Committee