

Audit Committee Report

Section C of the Financial Reporting Council's UK Corporate Governance Code 2016 (the 'Code') requires that:

- the board should present a fair, balanced and understandable assessment of the company's position, performance and prospects;
- the board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems; and
- the board should establish formal and transparent arrangements for considering how they should apply corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor.

The Board has delegated day to day responsibility for these matters to the Audit Committee (the 'Committee') and this report sets out how the Committee has discharged its responsibilities.

Members of the Committee have continued to take an active role including spending time with the operations teams in the field and also participating in key discussions on areas of financial judgment. These actions have allowed the Committee to have an even greater input and to develop greater awareness of the day-to-day challenges that the business faces and the potential consequences of such challenges.

Set out below are details on the processes in place to safeguard the independence and objectivity of our relationship with the external auditor and the role played by internal audit to ensure we have effective control and risk management processes.

Composition of the Committee

The Committee meets at least three times per year and also meets in private with the external auditors.

In accordance with provision C.3.1 of the Code, small companies (i.e. those below the FTSE 350) should establish a Committee of at least two, independent non-executive directors. Membership of the Committee at each of its meetings during the year is shown below and is, therefore, in accordance with the Code:

	February	August	November
Chris Girling	-	✓	✓
Nick Gregg	✓	✓	✓
Bill Shannon	✓	✓	✓
Paul Moody	✓	-	-

Provision C.3.1 also states that the company chairman may be a member of, but not chair, the committee provided he or she was considered independent on appointment as chairman.

	February	August	November
Chairman of the Company	Paul Moody	Bill Shannon	Bill Shannon
Chairman of the Committee	Bill Shannon	Bill Shannon	Chris Girling

The August meeting was held on 29 August, the same day as my appointment to the Board as an Independent Non-Executive Director. The Board considered this and determined that, particularly given one of the agenda items was to consider the draft 2018 Interim Financial Statements, it would be prudent for Bill Shannon to chair the meeting, given his prior knowledge of the Company, and that he would step down at the end of the meeting as Chairman of the Committee and be replaced by myself.

Evaluation of the Competence and Effectiveness of the Committee

During the year an evaluation of the Committee was conducted as part of an overall review of the Board and its Committees and, where appropriate, actions to improve the effectiveness of the Committee were agreed and implemented accordingly.

By virtue of my former executive and current non-executive roles (full details of which are set out on page 34), together with the results of the above evaluation, the Board considers that I have recent and relevant financial experience. The Board further concluded that the Committee, as a whole, has sufficient competence relative to the sector in which the Company operates.

Audit Committee Report

Continued >

Responsibilities of the Committee

The Committee is responsible for:

- ensuring that the interests of Shareholders are protected in relation to financial reporting and internal control;
- monitoring the financial reporting process and the integrity of the annual and interim financial statements;
- monitoring any formal announcements relating to the Company's financial performance;
- reviewing and challenging, as necessary, the judgments and actions of management in relation to the financial statements;
- monitoring, reviewing and concluding upon the system of internal control, including the work of internal audit;
- ensuring the maintenance of a control environment and the appropriate management of risk;
- recommendation of appointment of, and liaison with, the external auditor;
- reviewing and setting the terms of engagement and the remuneration of the external auditor;
- annual review and monitoring of the external auditor's independence and objectivity and the effectiveness of the audit process;
- development and implementation of policy on the engagement of the external auditor to supply non-audit services;
- reviewing the Group's systems and controls for the prevention and detection of fraud or bribery; and
- reviewing arrangements under which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters ensuring that arrangements are in place for the proportionate and independent investigation and appropriate follow-up action.

The Committee reports to the Board on how we have discharged our responsibilities.

The full terms of reference are available on the Company's website, or on request to the Company Secretary.

What the Committee did in 2018

In 2018, the Committee discharged its responsibilities by:

- reviewing the Group's draft financial statements, preliminary announcements and interim results statement prior to Board approval and reviewing the external auditor's reports thereon;
- reviewing and considering the significant issues in relation to the financial statements, as further detailed on page 49;
- reviewing the plan of the external auditor for the audit of the Consolidated and Company Financial Statements, confirmations of the auditor's independence and proposed audit fee, approving terms of engagement for the audit and considering the reappointment of PwC as auditor;
- considering and agreeing the annual internal audit plan;
- reviewing internal audit's progress and reports on its work during the year;
- considering the review of material business risks, including reviewing internal control processes used to identify and monitor principal risks and uncertainties;
- reviewing the Executive and Non-Executive Directors' expenses;
- monitoring the reporting, and follow up of items reported, on the employee hotline established in line with the Code of Ethics; and
- reviewing the Committee's composition and confirming that there is sufficient expertise and resource for it to fulfil its responsibilities effectively.

Fair, Balanced and Understandable

At the request of the Board, the Committee has considered whether, in its opinion, the 2018 Annual Report and Financial Statements are fair, balanced and understandable, and whether they provide the information necessary for Shareholders to assess the Group's position and performance, business model and strategy.

The Committee received a full draft of the report. Feedback was provided by the Committee, highlighting the areas it was felt would benefit from further clarity. The draft report was then amended to incorporate this feedback ahead of final approval. In particular, the Committee considered the following:

IS THE REPORT FAIR?

- Is the whole story presented and has any sensitive material been omitted that should have been included?
- Is the reporting on the business performance in the narrative reporting consistent with those used for the financial reporting in the financial statements?
- Are the key messages in the narrative reflected in the financial reporting?
- Are the KPIs disclosed at an appropriate level based on the financial reporting?

IS THE REPORT BALANCED?

- Is there a good level of consistency between the narrative reporting in the front and the financial reporting in the back of the Report, and does the messaging presented within each remain consistent when one is read independently of the other?
- Is the Annual Report properly a document for Shareholders?
- Are the statutory and adjusted measures explained clearly with appropriate prominence?
- Are the key judgments referred to in the narrative reporting and the significant issues reported in this Audit Committee Report consistent with the disclosures of key estimation uncertainties and critical judgments set out in the financial statements?
- How do the significant issues identified compare with the risks that PwC plans to include in its report?

IS THE REPORT UNDERSTANDABLE?

- Is there a clear and understandable framework to the Report?
- Are the important messages highlighted appropriately throughout the document?
- Is the layout clear with good linkage throughout in a manner that reflects the whole story?

When forming its opinion, the Committee reflected on the information it had received and its discussions throughout the year. Following its review, the Committee was of the opinion that the 2018 Annual Report and Financial Statements were fair, balanced and understandable on the basis that:

- the description of the business agrees with our own understanding;
- the risks reflect the issues that concern us;
- appropriate weight has been given to the 'good and bad' news;
- the discussion of performance properly reflects the 'story' of the year; and
- there is a clear and well-articulated link between all areas of disclosure.

Significant Matters Considered in Relation to the Financial Statements

The Committee has assessed whether suitable accounting policies have been adopted and whether management has made appropriate judgments and estimates. Throughout the year, the Group Finance team has worked to ensure that the business is transparent and provides the required level of disclosure regarding significant issues considered by the Committee in relation to the financial statements, as well as how these issues were addressed, while being mindful of matters that may be business-sensitive.

This section outlines the main areas of judgment that have been considered by the Committee to ensure that appropriate rigour has been applied. Accounting policies can be found in the Statement of Significant Accounting Policies. Each of the areas of judgment has been identified as an area of focus and therefore the Committee has also received detailed reporting from PwC.

Acquisition Accounting

During the year, the Group acquired 100% of the share capital of South West Laundry Holdings Limited.

The Committee considered the methodology and assumptions used by management in determining the fair value of the customer contracts and customer relationships acquired, as this was considered by the Committee to be the area of most significant judgment. The Committee was satisfied that the fair value had been calculated based upon relevant historical and prospective information and financial data specific to the business combination, with an appropriate discount factor applied. The Committee further considered the accounting policy alignment adjustments and, again, considered them to be reasonable.

The Committee also reviewed the proposed disclosures relating to the acquisitions for inclusion within the Consolidated Financial Statements and were in agreement that the requirements of IFRS 3, 'Business Combinations' had been satisfied.

Goodwill Impairment

As part of the year end process, management assessed whether goodwill had suffered any impairment, in accordance with the accounting policy stated within this Annual Report. The impairment test was undertaken at a cash generating unit ('CGU') level.

The Committee noted that the recoverable amount of a CGU was primarily determined based on value-in-use calculations, using pre-tax cash flow projections based on financial budgets, covering three years, which were Board approved. Cash flows beyond the budgeted period were extrapolated using an estimated annual growth rate, equal to the risk-free rate, of 1.87% into perpetuity. Furthermore, other than as included in the financial budgets, it had been assumed that there are no material adverse changes in legislation that would affect the forecast cash flows.

The pre-tax discount rate used in the 2018 calculations was 5.47% (2017: 5.62%) and was based upon the weighted average cost of capital of the Group. The discount rate takes into account, amongst other things, the risk-free rate of return (derived from a 20-year government bond price), the market risk premium and the Beta factor reflecting the average Beta for the Group and comparator companies.

Audit Committee Report

Continued >

The Committee noted that for each CGU, the discounted net present value of future cash flows provided significant headroom over the carrying value and hence was able to determine that no impairment was required, nor deemed it necessary to carry out further sensitivity analysis.

Post-employment Benefit Obligations

The valuation of all post-employment benefit obligations is based on statistical and actuarial calculations, using various assumptions including discount rates, inflation, life expectancy of scheme members and cash commutations. The Committee reviewed the actuarial assumptions underpinning the valuation and were satisfied that all assumptions are within ranges considered generally acceptable given the size, demographic and duration of the Group schemes.

Accounting for Complex Customer Arrangements

As in previous years, the Group offers rebates to certain customers based on agreed fixed rates relating to the volume of services provided and goods purchased. The Committee does not consider the Group's rebates to be highly complex as: they are volume related; there are generally written agreements in place; and historical estimates of rebates have been seen to be accurate. However, following current FRC guidance this has been highlighted as an area of focus. The Committee has discussed any judgments made in accruing customer rebates with management and the auditors. The Committee is satisfied that the amounts of expense accrued are appropriate.

Income Taxes

Judgment is required in determining the provision for income taxes as there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Committee discussed the effective tax rate for the year and noted that it was lower than the standard rate of UK taxation, primarily as a result of adjustments made in respect of prior years and the impact of deferred taxation as a result of changes to the UK tax rate, offset, to a lesser extent, by the effect of expenses that were not deductible for tax purposes. The Committee concluded that the judgments made in relation to taxation were reasonable.

Alternative Performance Measures (APMs)

Throughout the Annual Report and Financial Statements, we refer to a number of APMs. APMs are used by the Group to provide further clarity and transparency of the Group's financial performance. The APMs are used internally by management to monitor business performance, budgeting and forecasting, and for determining Directors' remuneration and that of other management throughout the business.

The Committee is aware that the APMs are non-IFRS measures. APMs used by the Group are as follows:

- adjusted operating profit, which refers to continuing operating profit before amortisation of intangible assets (excluding software amortisation) and exceptional items;
- adjusted profit before taxation, which refers to adjusted operating profit less total finance cost;
- adjusted EBITDA, used for gearing purposes, which refers to adjusted operating profit for the relevant year (adjusted for the timing of acquisitions and disposals) plus the depreciation charge for property, plant and equipment and software amortisation; and
- adjusted earnings per share which refers to earnings per share calculated based on adjusted profit after taxation.

The Committee considers that the APMs, all of which exclude the effects of non-recurring items or non-operating events, provide useful information for Shareholders on the underlying trends and performance of the Group. Furthermore, the Committee is content that where APMs are stated, they are presented with equal prominence to the statutory figures.

Going Concern

The Committee considered the Group's going concern review, in particular, the appropriateness of key judgments, assumptions and estimates underlying the budgets that underpin the review, together with a review of the level of forecast available headroom against the Group's committed borrowing facilities and compliance with key financial covenants.

After making enquiries, the Committee were satisfied that the Group has adequate resources to continue in operational existence for the 12 months from the date of approval of this Annual Report and that, for this reason, the Group should continue to adopt the going concern basis in preparing the financial statements.

Assessment of External Auditor Effectiveness

The Committee reviewed the external auditor's performance and on-going independence, taking into account input from management, consideration of responses to questions from the Committee and the audit findings reported to the Committee.

Based on this information the Committee concluded that the external audit process was operating effectively and PwC continued to prove effective in its role as external auditor.

Appointment of the External Auditor and Approach to how Objectivity and Independence are Safeguarded

The Company has adopted a policy on the independence of the auditor which is consistent with the ethical standard published by the Financial Reporting Council. A key issue for the Committee that may impair auditor independence, and the auditor's objective opinion on the Group's financial statements, is the engagement of the external auditor for the provision of non-audit services.

Non-Audit Services

The Committee has adopted a policy on the engagement of the external auditor for the provision of non-audit services and reviews this annually. The policy is designed to ensure that such engagements do not result in the creation of a mutuality of interest between the external auditor and the Company, that a transparent process and reporting structure is established to enable the Committee

to monitor policy compliance and that unnecessary restrictions on the engagement of the external auditor for non-audit services is avoided where the provision of advice is commercially sensible. The policy categorises the provision of non-audit services into three areas:

- normally performed by the auditor;
- may be performed by the auditor; and
- normally performed by another provider.

With reference to this policy, the selection of professional service firms for non-audit work that would normally be performed by the auditor is at the discretion of management, taking into account which firm is best placed to perform such work to meet the interests of the Company and Shareholders and with regard to ensuring that independence is not compromised. All other engagements (i.e. those that may be performed by the auditor and those that would normally be performed by another provider) would be subject to the approval of the Committee prior to the commencement of the engagement.

The total fees payable to the external auditor in respect of the year under review amount to £515,000 (2017: £481,000), of which £124,000 (2017: £199,000) related to non-audit services. For those non-audit related services received, the Committee considered that it was commercially sensible and more cost effective to use PwC rather than an alternative provider. Further details are set out below:

	Note	£000	2018 £000	£000	2017 £000
Audit related services	1		391		282
Non-audit related services					
- tax compliance and advisory	2	84		147	
- pension scheme audit	3	18		20	
- remuneration consultancy	4	13		-	
- business acquisition related activity	5	9		31	
- other		-		1	
			124		199
Total fees payable to the external auditor			515		481
Non-audit related fees as a % of total fees			24%		41%

Notes:

1. The increase largely reflects additional one-off work undertaken as a result of the introduction of new accounting standards; IFRS 9, IFRS 15 and IFRS 16.
2. PwC have been tax advisors to the Company for a number of years; the Committee considers that retaining this historical knowledge is in the best interests of the Company.
3. The Trustee of the Johnson Group Defined Benefit Scheme (the 'JGDBS') has appointed PwC to perform the audit of the JGDBS.
4. Work performed during the year included assistance with the drafting of the 2018 LTIP Scheme rules, which were subsequently approved by Shareholders at the 2018 Annual General Meeting, the provision of various remuneration benchmarking information and responding to ad-hoc queries.
5. Work performed in relation to business acquisitions and, in 2017 only, the disposal of Drycleaning.

Independence Safeguards

The external auditor is required to adhere to a rotation policy whereby the Senior Statutory Auditor (audit engagement partner) is rotated after five years. The current Senior Statutory Auditor was appointed in 2015 and, in accordance with best practice and professional standards, will be replaced no later than 2020. The external auditor is also required to assess periodically whether, in their professional opinion, they are independent and those views are shared with the Committee. The Committee has authority to take independent advice, as it determines necessary, in order to resolve issues on auditor independence. No such advice was required during the year.

Independence Assessment by the Committee

PwC have been the Company's auditors from the date of the Company's incorporation, which exceeds the 20 years stated within recent EU legislation (albeit, such legislation is not applicable to AIM listed companies), and no formal tender has taken place since that date. In assessing and concluding upon the independence of PwC the Committee take this period of tenure into account, however, the Committee is satisfied that the independence of the external auditor is not impaired due to the fact that the audit engagement partner and senior staff rotation policy has been complied with, the level of fees paid for non-audit services was of a level that does not present any on-going threat to their independence and separate external firms are appointed for certain other advisory services. In addition, the Committee meets with the external auditor during the year without the presence of management and I have had regular contact with the audit engagement partner since my appointment.

Re-appointment of the External Auditor

The re-appointment of PwC as the Group's external auditor was reviewed during the year. The Committee has assessed the performance, objectivity and independence of the external auditor, which underpins its recommendation to the Board to propose to Shareholders the re-appointment of PwC as auditor until the conclusion of the AGM in 2020. Full details are set out in the Notice of Annual General Meeting on pages 140 to 145. There are no contractual restrictions over choice of auditor.

Audit Committee Report

Continued >

Role of Internal Audit

Internal audit has a Group-wide remit and is independent of the business operations. It undertakes an on-going programme to provide assurance on the adequacy of internal control and risk management processes across the Group's operations. Internal audit is responsible for reviewing and reporting on the effectiveness of internal controls and risk management systems to the Committee and, ultimately, the Board. Internal audit attend Committee meetings to present the findings of such reviews at regular intervals throughout the year and report on performance against the agreed annual internal audit plan, such plans being agreed during the year by the Committee.

Internal Control and Risk Management

The Board is ultimately responsible for the overall system of internal control for the Group and for reviewing its effectiveness. The Board has delegated day to day responsibility for this to the Committee. The Committee carries out a review, at least annually, covering all material controls, including financial, operational and compliance controls, and the risk management systems. The system of internal control is designed to mitigate, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

There is an on-going process for identifying, evaluating and managing the Group's significant risks that has been in place throughout the financial year and up to the date of approval of the financial statements. The Committee receives reports setting out key performance and risk indicators and considers possible control issues brought to its attention by early warning mechanisms which are embedded within the operational units and reinforced by risk awareness training.

The key elements of the Group's on-going processes for the provision of effective internal control and risk management systems, in place throughout the year and at the date of this Report, include:

- regular Board meetings to consider matters reserved for Directors' consideration;
- regular management reporting, providing a balanced assessment of key risks and controls;
- an annual Board review of corporate strategy, including a review of material business risks and uncertainties;
- established organisational structure with clearly defined lines of responsibility and levels of authority;
- an internal audit function which implements the annual internal audit plan and provides independent assurance to management, the Committee and the Board on the effectiveness of internal controls and risk management;
- documented policies and procedures;
- regular review by the Board of financial budgets, forecasts and covenants with performance reported to the Board monthly; and
- a detailed investment process for major projects, including capital investment coupled with a post investment appraisal analysis.

In reviewing the effectiveness of the system of internal control the Committee has:

- received six-monthly reports, compiled by the Company Secretary following discussion with key senior managers, that set out the key risks facing the Group and indicate whether controls and risk management processes in each business unit have operated satisfactorily. These returns are reviewed in detail, challenged where appropriate and approved by the Committee for use in the Annual Report;
- regularly reviewed the financial and accounting controls;
- reviewed the internal audit reports; and
- monitored management's responsiveness to the findings and recommendations of internal audit.

No significant failings or weaknesses were identified.

In respect of Group financial reporting, the finance department is responsible for preparing the Group financial statements using a well-established consolidation process and ensuring that accounting policies are in accordance with International Financial Reporting Standards. There is a detailed budgeting process with an annual budget both challenged, stress-tested and approved by the Board. Monthly results are reported against the corresponding figures for the budget and the previous year with corrective action initiated by the Board as appropriate. All financial information published by the Group is subject to approval by the Committee.

The Group's treasury activities are operated within Board approved guidelines. Facilities are approved by the Board and all transactions are controlled and monitored. Monthly summaries of treasury management activities are prepared for the Board. Speculative transactions are not undertaken.

There have been no changes in the Company's internal control over financial reporting during the year under review that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

The Board, with advice from the Committee, is satisfied that an effective system of internal controls and risk management processes are in place which enable the Company to identify, evaluate and manage key risks. These processes have been in place since the start of the financial year and up to the date of approval of the financial statements. Further details of risk management frameworks and specific material risks and uncertainties facing the business can be found on pages 28 to 31.

Bribery Act 2010

The Bribery Act 2010 (the 'Act') came into force on 1 July 2011, and repealed all previous statutory and common law provisions in relation to bribery, instead replacing them with the crimes of bribery, being bribed, the bribery of foreign public officials and the failure of a commercial organisation to prevent bribery on its behalf. However, a defence to any such corporate failure offence is possible if it can be shown that adequate procedures were in place at the time.

The Group is committed to conducting its business with the highest degree of integrity. This commitment includes a zero tolerance approach towards all forms of bribery, corruption, fraud and theft.

The Group has in place an appropriate policy and regularly re-enforces its code of ethics. Appropriate Board approved procedures are in place to prevent employees and other associated persons committing offences under the Act. Engaging in fraud, bribery or corruption is unlawful and any employee, director or officer found to have breached the code of conduct will be liable to disciplinary action which may result in dismissal or other serious sanctions. Breaches of the code of conduct by third parties may result in immediate termination for breach of all contracts with the Group. These procedures are subject to regular monitoring and review.

Modern Slavery Act

We are committed to implementing and enforcing effective systems and controls to ensure slavery and human trafficking is not taking place anywhere in our supply chains or in any part of our business. To ensure a high level of understanding of the risks of modern slavery and human trafficking in our supply chains and our business, all Directors have been briefed on the subject and we provide training to relevant members of staff. Further details can be found on page 25.

Whistleblowing

The Group is committed to developing a culture of openness, honesty and accountability and believes that it is fundamental that any concerns our employees have about the Company can be raised without fear of victimisation. To this end, the Group has in place a whistleblowing policy which encourages employees to report any malpractice, illegalities, wrongdoing or matters of similar concern (together 'ethical wrongdoing') by other employees, former employees, contractors, suppliers or advisers. Examples of ethical wrongdoing include bribery, corruption, fraud, dishonesty and illegal practices which may endanger employees or other parties. There have been no material instances of whistleblowing during the year under review.



Chris Girling
Chairman, Audit Committee

4 March 2019