Audit Committee Report

Letter from Chris Girling, Chairman of the Audit Committee

Dear Shareholder.

On behalf of the Board, I am pleased to present the Audit Committee's Report for the financial year ended 31 December 2020.

The Year in Review

The Audit Committee continued to fulfil its duties throughout the year, maintaining oversight of the integrity of the Company's financial reporting, key accounting judgments and related disclosures, and the robustness of the Group's risk management and internal control systems. In discharging its duties, the Committee works to a structured agenda closely linked to the events in the Company's reporting cycle.

The Committee's work was supported by the Group's well established risk and financial management structures. The exceptional and unprecedented challenges posed by the COVID-19 pandemic and its impact on the Group's businesses has tested the robustness of those structures and the established working processes between management and the Committee.

I am pleased to report that the Group's risk and financial management structures have operated effectively during the year under review. The continued support, constructive engagement and level of responsiveness of my Committee colleagues and management, particularly during the early stages of the pandemic, have enabled the Committee to fulfil its role in providing effective scrutiny and challenge. In this regard, I would like to thank colleagues across the Group who assisted the Committee during the year for their support.

As in previous years, the Committee's primary focus was on the integrity of the Group's financial reporting activities. In considering the financial statements for 2020, the Committee concentrated on the accounting judgments and disclosures relating to the impact of COVID-19 on the Group's businesses, including government support and tax deferral initiatives, liquidity and the impact on financial covenants, cost control and right sizing actions and the carrying value of goodwill. Careful consideration was given to the Group's viability disclosures and its ability to continue as a going concern, with particular scrutiny being given to the reports prepared and assumptions used by management to support those statements. The Committee concluded that the Company had adopted an appropriate approach in all significant areas.

At the request of the Board, the Committee also considered the Group's Principal Risks and Uncertainties disclosures for the financial year ended 31 December 2020. The Committee is satisfied that the statements made by executive management on pages 38 to 45 of this Annual Report are appropriate based on what is currently known to management as at the date of this Report.

More information about the Committee's activities during the year can be found in the pages which follow.

Evaluation of the Competence and Effectiveness of the Committee

Each year, as part of an overall review of the Board and its Committees, the Audit Committee critically reviews its own performance and considers where improvements can be made. In so doing it considers, amongst other things, those matters discussed by the Audit Committee, such as:

- composition, structure and activities
- how well the Committee oversees the financial reporting process
- its review of the work of the external auditor
- the effectiveness of the process for raising concerns
- its monitoring of the management of risk
- how well it understands and evaluates the effectiveness and conclusions of internal control and the adequacy of the related disclosures
- whether the Committee's terms of reference are appropriate for the particular circumstances of the Company and comply with prevailing legislation and best practice
- whether the number and length of time of Committee meetings are sufficient to meet the role and responsibilities of the Committee and coincide with key dates within the financial reporting and audit cycle
- identification of additional training needs for Committee members

Overall, the performance of the Committee continued to be rated highly and the Committee was considered to have discharged its duties effectively. By virtue of my former executive and current non-executive roles (full details of which are set out on page 48), 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

Letter from Chris Girling, Chairman of the Audit Committee

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Appointment of a New External Auditor

This year, the Audit Committee led a formal competitive tender process for the appointment of a new external auditor. As announced in November, and subject to shareholder approval at the 2021 Annual General Meeting of the Company in May, Grant Thornton UK LLP ('Grant Thornton') has been proposed as the external auditor to take effect from, and including, the financial year ending 31 December 2021.

Whilst the Committee, along with the other members of the interview and selection panel, agreed that each shortlisted firm was capable of performing a quality audit of the Group, the unanimous view was that Grant Thornton had performed better against the Committee's pre-agreed selection and assessment criteria.

PricewaterhouseCoopers LLP ('PwC') will continue in its role as external auditor to the Company for the financial year ending 31 December 2020. PwC was not invited to participate in the tender due to the length of its current appointment. I would like to thank PwC for its significant contribution as auditor of the Company over the past years.

Further details of the external audit tender process can be found on pages 75 to 76.

The Year Ahead

COVID-19 has had a profound impact on the Group, and we continue to respond admirably to the challenges and opportunities that this brings. The Audit Committee fulfils a key role in assisting the Board in ensuring that the integrity of the Group's financial statements and the effectiveness of the Group's internal financial controls and risk management systems are maintained. Through the Audit Committee's composition, resources and the commitment of its members, I believe that it remains well placed to meet these challenges and to discharge its duties in the year ahead.

Chris Girling
Chairman, Audit Committee

19 March 2021

Audit Committee Report

Responsibilities of the Audit Committee

The Board has established an Audit Committee (the 'Committee'), comprising the independent Non-Executive Directors, to which it has delegated day to day responsibility for the following:

- ensuring that formal and transparent policies and procedures are in place to protect the interests of Shareholders in relation to financial reporting, internal control and risk management;
- monitoring the financial reporting process and the integrity of the annual and interim financial statements;
- determining whether the Annual Report and Accounts, taken as a whole, 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;
- considering, and ultimately approving for publication, 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 regularly reports to the Board on how it has discharged its responsibilities. The full terms of reference of the Committee are available on the Company's website, or on request to the Company Secretary.

Members of the Committee have continued to take an active role including spending time with the operations teams 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.

This report sets out how the Committee has discharged its responsibilities.

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 24 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 (Committee Chairman)	✓	✓	✓
Nick Gregg	✓	✓	✓

What the Committee did in 2020

In 2020, 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 matters in relation to the financial statements, as further detailed on pages 71 to 72;
- 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 and approving terms of engagement for the audit;
- considering and agreeing the annual internal audit plan together with any findings and recommendations arising thereon;
- monitoring and reviewing the effectiveness of the internal audit function;
- 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;
- reviewing the Committee's composition and confirming that there is sufficient expertise and resource for it to fulfil its responsibilities effectively;

Audit Committee Report
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- instigating a review of records and claims made in respect of the Coronavirus Job Retention Scheme to ensure claims had been correctly calculated in accordance with the published detailed guidance; and
- following a formal competitive tender process, recommending the appointment of Grant Thornton UK LLP as the new external auditor, to take effect from, and including, the financial year ending 31 December 2021.

Fair, Balanced and Understandable

At the request of the Board, the Committee has considered whether, in its opinion, the 2020 Annual Report and Accounts 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 2020 Annual Report and Accounts 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, particularly with respect as to how COVID-19 has impacted the business; 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.

Impairment

As part of the year end process, management assessed whether goodwill (in respect of the Group) and investments (in respect of the Company) 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 reviewed and challenged management's impairment testing of goodwill and investments. The Committee considered the appropriateness of key assumptions and methodologies for both value in use models and fair value measurements. This included challenging projected cash flows, growth rates and discount rates as well as considering any impacts of the uncertainties arising from COVID-19. The Committee concluded that the methodology and assumptions used by management were reasonable.

Acquisition Accounting

The Committee considered the purchase of customer contracts which had been completed in February 2020 and were satisfied that the purchase of the contracts did not meet the eligibility criteria set out within IFRS 3 'Business Combinations' and hence should not be recognised as a business combination.

The Committee also noted that, during the year, management had revisited the detailed provisional fair value assessment that had been carried out in 2020, following the acquisition of Fresh Linen, and had reassessed the initial fair values such that an increase of £0.4 million in trade and other payables had been recognised, relating to pre-acquisition Health and Safety matters, with a corresponding increase to goodwill.

The Committee considered the methodology and assumptions used by management and considered them to be reasonable.

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 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.

Going Concern Assessment

The Group has been severely impacted by the Government restrictions put in place to limit the spread of COVID-19. The Committee noted that, although the Workwear division did experience some downturn in sales, the HORECA division saw a significant reduction in sales volumes. Whilst trading did show a recovery post the initial lockdown, this has been limited by further social distancing measures and further lockdown restrictions brought in towards the end of the financial year. The Committee also noted that there continues to be uncertainty surrounding the resolution of the pandemic and the impact on the wider economy.

The Committee reviewed in detail the going concern assessment prepared by management, which comprised a base case scenario, reflecting an initial set of assumptions around financial projections and trading performance, together with various, more pessimistic, expectations for market developments over the remainder of 2021 and 2022 to reflect subdued trading conditions and which were designed to stress test liquidity and covenant compliance. Detailed explanations had been provided by management with regard to the assumptions used in the base case scenario as well as within the severe but plausible downside scenarios. The Committee carefully studied the assumptions relating to the projections and considered that they were sensible and appropriate to the circumstances.

After considering the base case scenario, the severe but plausible sensitivities and the facilities available to the Group and Company, the Committee concluded that there was a reasonable expectation that the Group and Company have adequate resources for their operational needs, will remain in compliance with the financial covenants set out in the bank facility agreement and will continue in operation for at least the next 12 months from the date of approving both the Group and Company financial statements. As a consequence, and having reassessed the principal risks and uncertainties, the Committee considered, and reported to the Board as such, that it was appropriate to adopt the going concern basis in preparing the Group and Company financial statements.

Audit Committee Report

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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 or loss, which refers to continuing operating profit or loss before amortisation of intangible assets (excluding software amortisation) and exceptional items;
- adjusted profit or loss before taxation, which refers to adjusted operating profit or loss less total finance cost;
- adjusted EBITDA, which refers to adjusted operating profit or loss plus the depreciation charge for property, plant and equipment, textile rental items and right of use assets plus software amortisation;
- net debt, adjusted to exclude the impact of the adoption of IFRS 16; and
- adjusted earnings per share which refers to earnings per share calculated based on adjusted profit or loss 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.

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 in respect of the year ending 31 December 2020.

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 historically 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.

Going forward, and in response to the Financial Reporting Council's revision of the ethical standard for auditors, all non-audit services will be provided by a professional services firm other than the Company's appointed external auditor.

Fees Payable to the Auditor

The total fees payable to the external auditor in respect of the year under review amount to £585,000 (2019: £532,000), of which £139,000 (2019: £130,000) 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	2020 £000	£000	2019 £000
Audit related services			**446**		402
Non-audit related services					
- tax compliance	1	**85**		96	
- tax advice	2	**34**		–	
- pension scheme audit	3	**20**		19	
- business acquisition related activity	4	**–**		15	
			139		130
Total fees payable to the external auditor			**585**		532
Non-audit related fees as a % of total fees			**24%**		24%

Notes:

1. **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.**
2. **During the year, the Group utilised the Coronavirus Job Retention Scheme (CJRS). The scheme is complex to administrate and, accordingly, the Group engaged PwC, as its preferred tax advisor, to provide advice and guidance.**
3. **The Trustee of the Johnson Group Defined Benefit Scheme (the 'JGDBS') has appointed PwC to perform the audit of the JGDBS. Notwithstanding, that the audit services performed are for the benefit of the Trustee, the Company, as the sponsoring employer, is liable for the payment of the audit fees invoiced to the Trustee.**
4. **During the prior year, fees of £5,000 were payable in respect of advice on the tax arrangements of Fresh Linen Holdings Limited, acquired in November 2019. In addition, £10,000 was payable for advice on legacy tax matters relating to Ashbon Services Limited ('Ashbon'), which was acquired in 2015. The Company was reimbursed by the seller for the fees relating to Ashbon.**

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. In 2019, and one year earlier than required, there was a change in the Senior Statutory Auditor. The previous Senior Statutory Auditor was appointed in 2015 and, in accordance with best practice and professional standards, would have been replaced no later than 2020. The current Senior Statutory Auditor, appointed in August 2019, would be required to rotate no later than August 2024. However, as explained in further detail on pages 75 to 76, and as a result of the long tenure of PwC as external auditor to the Company, during the year the Committee led a formal competitive tender process for the appointment of a new external auditor. As announced in November, and subject to Shareholder approval at the 2021 Annual General Meeting of the Company in May, Grant Thornton UK LLP ('Grant Thornton') has been proposed as the external auditor to take effect from, and including, the financial year ending 31 December 2021.

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). Nevertheless, as referred to above and as further set out on pages 75 to 76, during the year the Committee led a formal competitive tender process for the appointment of a new external auditor. Subject to Shareholder approval at the 2021 Annual General Meeting of the Company in May, Grant Thornton has been proposed as the external auditor to take effect from, and including, the financial year ending 31 December 2021.

In assessing and concluding upon the independence of PwC during 2020, the Committee took this period of tenure into account, however, the Committee is satisfied that the independence of the external auditor is not impaired. This is 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 three times during the year without the presence of management and I have had regular contact with the audit engagement partner.

Appointment of the External Auditor

The Committee has recommended to the Board to propose to Shareholders the appointment of Grant Thornton as auditor until the conclusion of the AGM in 2022. Full details are set out in the Notice of Annual General Meeting on pages 180 to 187. There are no contractual restrictions over choice of auditor.

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Role of 'Internal Audit'

The Group's internal audit process is undertaken by the centralised Group Finance team, which has a Group-wide remit and is independent of the business operations. The team, which is comprised entirely of qualified accountants, including the Company Secretary, undertakes an on-going programme to provide assurance on the adequacy of internal control and risk management processes across the Group's operations. The team is responsible for reviewing and reporting on the effectiveness of internal controls and risk management systems to the Committee and, ultimately, the Board. The Company Secretary attends each Committee meeting to present the findings of such reviews and to report on performance against the agreed annual audit plan, such plans being agreed during the year by the Committee. The Committee considers the current internal audit arrangements to be effective and appropriate for the Group.

Internal Control and Risk Management

Whilst day to day responsibility has been delegated to the Committee, the Board is ultimately responsible for the overall system of internal control for the Group and for reviewing its effectiveness. The Board's agenda includes a bi-annual consideration, or more frequently if appropriate, of risk and control and it receives reports thereon from the Audit 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 Committee also receives regular reports from the internal audit function and, where necessary, recommendations for improvement are considered and agreed. This process has been regularly reviewed by the Board.

The main features of the internal control framework are detailed below.

1. Financial Reporting

There is a detailed budgeting and forecasting process with the annual budget and forecast both challenged, stress tested and, ultimately, approved by the Board. Monthly financial results, together with updated forecasts as appropriate, are reported against the corresponding figures for the budget and the previous year with corrective and/or investigative action initiated by the Board as appropriate.

2. Treasury Management

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.

3. Risk Management

There is an on-going process for identifying, evaluating and managing the Group's Principal Risks and Uncertainties that has been in place throughout the financial year and up to the date of approval of the financial statements. The identification of business risks is carried out in conjunction with operating management and reviewed by the Committee and the Board. The Board regularly assesses the financial implications and effectiveness of the control process in place to mitigate or eliminate these risks. The Group has insurance cover where it is considered appropriate and cost effective.

4. Financial Control

Each business maintains financial controls and procedures appropriate to its own operating environment. The Group has a centralised finance function, independent to the operating businesses and which can second additional resources from around the Group, which reviews the systems and procedures within each business and reports regularly to the Committee. A review of control procedures is undertaken in respect of all new acquisitions and action taken where necessary to bring the controls up to the level required by the Group. The Group has clearly defined guidelines for the review and approval of capital expenditure projects. These include annual budgets and designated levels of authority.

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.

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;
- a centralised Group finance function which is independent to the operating businesses and 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 reports 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 arising from the above.

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.

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 31.

Whistleblowing

The Group is committed to 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 advisors. Examples of ethical wrongdoing include bribery, corruption, fraud, dishonesty and illegal practices which may endanger employees or other parties.

Any matters raised through the whistleblowing process are reported to the Committee. Where such matters are raised a proportionate investigation is undertaken by independent management under the direction and guidance of the Committee.

Appointment of a New External Auditor

As set out in my letter to Shareholders on page 68, the Committee led a formal, rigorous and competitive tender process for external audit services for the 2021 financial year onwards. The steps that were undertaken as part of the process are set out below:

Expressions of Interest

Management held meetings with the Big Four firms (excluding the current external auditor) as well as two mid-tier firms to capture expressions of interest.

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Invitation to Tender

On behalf of the Audit Committee, management issued a formal Request for Proposal to the three firms who had confirmed a willingness to participate in the tender process and who the Audit Committee considered to be the most suitable and capable to undertake audit services for the Group, detailing the evaluation criteria which would be used by the Committee in informing its decision, which included but was not limited to:

- Quality and clarity of audit approach
- Demonstration of a challenging and sceptical mindset
- Quality record of the firm, lead partner and senior audit personnel
- Appropriate geographical breadth to cover our locations
- The quality of understanding of the audit risk areas
- Demonstration of an ever evolving audit approach, particularly in respect of the use of technology
- Depth of understanding the Group's business, its industry and the risks in the industry
- Audit team experience, including specialist resource
- Overall quality of the response

Information Sharing and Preliminary Meetings

Relevant information about the Group was provided to participating firms who were also granted access to key management and Committee members.

Further Engagement

Initial questions/requests for further information were received from the participants. Management provided detailed responses to these requests to all participating firms, not just the firm that requested the information.

Written Proposal

The Audit Committee received a written proposal from each of the firms. The firms were also asked to review and comment on the previous year's Annual Report as part of their submission proposals.

References

Independent references for each firm's lead partner were taken by the Audit Committee.

Presentations and Q&A Session

At the final stage, the participating firms delivered presentations and their proposed audit plan, followed by a question and answer session. The meetings were led by the Audit Committee members although the Group CEO, Group CFO and Company Secretary also attended the presentations and contributed to the question and answer session.

Evaluation, Assessment and Committee Recommendation

The Committee's unanimous view was that each firm could perform a quality audit of the Group. However, based on the evaluation criteria above, the Committee discussed and agreed on two final shortlisted firms and unanimously agreed to recommend Grant Thornton for approval to the Board, as they had performed better against the Committee's pre-agreed selection and assessment criteria.

Board Approval

The Committee recommended two firms to the Board, with a preference for the tender to be awarded to Grant Thornton. The Board endorsed the Committee's recommendation.

Audit Transitional Plans

Grant Thornton has already commenced with undertaking transitional activity in preparation for the external audit cycle in 2021, by shadowing the outgoing external auditor and attending the Committee meetings from November 2020. This will aid a smooth transition and allow Grant Thornton to embark on the 2021 audit as well prepared as possible.

Chris Girling
Chairman, Audit Committee

19 March 2021