



Mike McKeon  
Committee Chair

“The Committee’s intensified focus on the integrity of the Company’s financial reporting and robustness of its internal controls has been crucial in giving assurance on such matters in the context of the heightened risks to the Company’s control environment caused by the Covid-19 pandemic.”

### Primary role

To assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring the integrity of published financial information, the adequacy and robustness of the Group’s system of internal control and risk management and the adequacy and effectiveness of the internal and external audit processes.

The Committee’s terms of reference, reviewed and approved annually, are available on the Company’s website at [www.nationalexpressgroup.com](http://www.nationalexpressgroup.com)

### Key responsibilities

- Monitor the integrity of the Group’s published financial information and review and challenge where appropriate any significant financial judgments and estimates made by management
- Evaluate the adequacy, robustness and effectiveness of the Group’s internal financial and other controls
- Support the Board in evaluating the adequacy, robustness and effectiveness of the Group’s risk management system, both for identifying, managing and mitigating principal risks and identifying and mitigating emerging risks where possible
- Review the Group’s policies, processes and controls for the detection and prevention of fraud, bribery and slavery and for compliance with applicable laws, regulations and codes of conduct
- Approve the activities, review the findings and assess the effectiveness of the Company’s internal audit function
- Monitor the activities, review the findings and assess the independence and effectiveness of the external auditor

- Review the contents of the Company’s Annual Report and Accounts and advise the Board whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company’s position and performance, business model and strategy

### Activity highlights

- Supported the Board in the management of risk, including via a detailed review of the direct and indirect impacts of Covid-19
- Monitored the findings and effectiveness of the internal audit function, including internal audit findings on the robustness of key internal controls through the Covid-19 pandemic
- Assessed, challenged and satisfied itself of the robustness of the Group’s going concern and viability statements and impairment assessments
- Scrutinised the Company’s half and full year financial statements
- Assessed and challenged management’s approach to critical accounting judgements and key sources of estimation uncertainty
- Considered an internal audit review of the Group’s anti-bribery and anti-slavery compliance programmes
- Reviewed and confirmed compliance with the Group’s treasury policy and considered and confirmed the Group’s tax strategy
- Completed the external audit tender and made a resulting recommendation to the Board

### Membership, meetings and attendance

Committee member	Appointed	Resigned	Meetings attended/ meetings held
Mike McKeon (Chair) <sup>1</sup>	03.07.15	–	3/3
Dr Ashley Steel <sup>1</sup>	01.01.16	–	3/3
Ana de Pro Gonzalo <sup>1</sup>	01.10.19	–	2/3
Lee Sander <sup>2</sup>	01.06.11	25.02.20	1/1
Chris Muntwyler <sup>2</sup>	11.05.11	25.02.20	1/1

<sup>1</sup> Independent Non-Executive Director

<sup>2</sup> Lee Sander and Chris Muntwyler stood down from the Committee on 25 February 2020 and attended the only Committee meeting held while they were members. Both were independent Non-Executive Directors when they attended this meeting

Attendees: Company Secretary and, by invitation, Company Chairman, Group Chief Executive Officer, Group Chief Financial Officer, Head of Group Finance, Group Legal Counsel, Head of Group Internal Audit and representatives of the external auditor, Deloitte



### Dear fellow Shareholder

I am pleased to present the Audit Committee Report for 2020 – a very challenging year. With the Covid-19 pandemic significantly impacting the Group and its financial position, this necessitated changes in the Group's working practices and the Audit Committee's approach to its activities, with Audit Committee members holding their usual schedule of meetings as well as numerous informal meetings and discussions. This has ensured the integrity of the Company's financial results, going concern status and viability, as well as the robustness of its system of internal control.

As explained on page 26 the Financial Review section of the Strategic Report, the Company was involved in significant capital markets and other finance initiatives during the year to ensure the Company would maintain adequate liquidity and be able to comply with its debt covenants, even in a severe downturn scenario. I and my fellow Audit Committee members were pleased to lend the executive team our experience, expertise and scrutiny on these initiatives during the year.

### Financial reporting

The Committee is responsible for considering and satisfying itself, having consulted with the external auditor, that the Company and Group have adopted suitable accounting policies and appropriately applied the same, that management has made appropriate accounting judgements and estimates and that the conclusions reached by management as regards the Company's going concern status and its long-term viability are appropriate. Further details of the Committee's work in reviewing management's judgements and estimates on significant and other accounting matters are set out in Appendix 1 to this Report.

### Going concern assessment

From the start, it was clear that the short-term impact of the Covid-19 pandemic on the Company's operational and financial outcomes would be significant and the Company's going concern and future viability were our point of focus. The Committee therefore reviewed these matters in detail at both the 2020 half year and full year, assuring itself that the management actions taken would support the range of potential scenario outcomes and the positive statements the Company has made. We were also heavily engaged with, and grateful for the rigorous assessment of such matters by, the external auditor.

Having carefully considered the assumptions behind the range of scenarios presented, the Committee concurred with management's assessment that: a) in the base case scenario the Company had sufficient liquidity and covenant headroom in order to meet its obligations as they fell due over the period of at least 12 months from the date of signing the half year and full year results; and b) in all scenarios the likelihood of circumstances arising that would exhaust liquidity or breach covenants (as those covenants were amended by agreement with the Company's debt funders at various times throughout the 2020 year and again early in 2021) were remote.

### Viability assessment

The Committee reviewed the Company's Viability Statement as at 31 December 2020. This included a careful assessment of the rationale for the three-year viability period, the nature of the incidence of risks modelled during such period and the potential aggregate financial impact of such risks. It also involved consideration of the likely pace of recovery from the Covid-19 pandemic, the impact of different scenarios on the Company's viability and the need for (and likelihood of securing) agreement from the Company's debt funders to amend covenants further should there be a confluence of downside scenarios during the viability period.

The Committee is satisfied that, despite the uncertainties caused by the Covid-19 pandemic, management's conclusion that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due is appropriate, which view is also supported by the Company's external auditor.

### IFRS 16 'Leases' accounting standard

In 2020, the Financial Reporting Council (FRC) wrote to the Company twice regarding the disclosures in respect of IFRS 16 in its 2019 Consolidated Financial Statements. The first correspondence was to notify the Company that elements of its disclosures were going to be included as an example of best practice in an IFRS 16 thematic review. The second correspondence was to share the overall findings of its review of the Company's IFRS 16 disclosures. I am pleased to report that there were no questions raised. The FRC did make some suggestions for enhancement of the Company's IFRS 16 disclosures which management considered and, where appropriate, reflected in the 2020 Consolidated Financial Statements.

### Internal control

The Committee is responsible for monitoring the adequacy and effectiveness of the Company's system of internal control and enhanced its engagement throughout 2020 to assure itself of such system's continued effectiveness.

### System of internal control

The Company's system of internal control is based on a three lines of defence model, and is comprised of a number of features, as illustrated by the diagram and explained by the details given in Appendix 2 to this Report.

### Internal audit

Within this model, the Company's internal audit function acts as the third line of defence. It provides the Committee with assurance on the effectiveness of the Company's internal controls through independent observation and objective assessment of such controls, including those designed to prevent incidents of fraud, via a programme of audits undertaken throughout the year against a plan reviewed and approved by the Committee.

During the year under review, and with engagement and agreement of the Committee, the internal audit team revised its internal audit plan to carry out tailored audits to address potential new risks to the Company's system of internal control which emerged from operating under the conditions created by the Covid-19 pandemic. These comprised audits to test the continued effectiveness of key operational controls in each of the Group's divisions taking into account changes in working conditions, including office-based colleagues working from home. For example, audits were undertaken to verify whether there were appropriate controls for the protection of customers' personal data, including financial data, when given to call centre colleagues working from home and whether there were adequate systems to ensure the continued accuracy and timeliness of financial information reporting. In addition, there were more audits focused on checking for fraud, the incidence of which tends to increase during challenging economic times. The Committee was assured by the findings of these internal audits, and grateful for the flexibility of the internal audit team to adapt their plans and priorities to respond to the Company's and Committee's needs as they arose.

### Internal audit effectiveness

The Committee is responsible for monitoring the effectiveness of the internal audit function. One of the ways it does so is through the 'value scorecard', introduced last year. This is used by colleagues in the Group's businesses whose work or controls are subject to internal audit to score the internal audit team against various criteria. Having regard to the scores awarded to the team for its work in the year under review, and the Committee's own observations and scrutiny of that work, the Committee is satisfied that the Company's internal audit function continues to be effective.

### Tax and treasury compliance

During the year, the Committee also reviewed the Company's tax strategy and its new tax governance structure and satisfied itself that the strategy remained appropriate. It also reviewed the Company's treasury policy and confirmed that the policy had been complied with.

### Significant weaknesses or control failures

In my 2019 Audit Committee Report, I informed shareholders that the Committee had identified and reviewed the need to address some weak control findings in relation to the oversight of tax accounting in certain parts of the Group. Following implementation of management's plans to address these findings, the Committee is satisfied that the issues have been resolved.

In respect of the year ended 31 December 2020, the Committee reviewed and assessed the need to address some control findings in relation to its North America division. These findings did not give rise to any material errors in the year and management has a plan in place to address them. The Committee will review its implementation in 2021. Other than this, no significant weaknesses or control failures were found.

### Risk management

The Board has overall responsibility for the Company's risk management and the Committee supports the Board by conducting 'deep dive' reviews into specific Group-wide risks and detailed reviews of the Group's divisions' risk registers and risk management activities. During the year under review, there was however some adaptation to the Committee's activities in this area, as explained below.

### Risk appetite and principal and emerging risks

The Company's risk appetite, and the Board's assessment of the Company's principal and emerging risks, including the extended impact of the Covid-19 pandemic as a principal risk and other risks reassessed through the lens of the pandemic, are set out on pages 36 to 41 of the Strategic Report.

### Cyber security

The Committee continued with its detailed review of the Group's cyber security arrangements to address the Group-wide cyber risk. While cyber security has been high on the Committee's agenda for several years, it remained so during the year under review due to enhanced threats in the cyber landscape created by the Covid-19 pandemic, for example as a result of a marked increase in phishing attacks using some Covid-related issue as a hook – something many companies have experienced.

As with internal audit's plans, the Committee reviewed how the IT security team had adjusted their cyber security programme to address these enhanced threats, for example by enhancing cyber security awareness among all colleagues, by strengthening spam filters and by performing their own simulated cyber attacks to identify and fix any vulnerabilities. In addition, to protect against any potential enhanced risk from home-working arrangements, the team focused on creating additional security for these new end-user environments. The Committee was pleased with the Group's focus in this critical area.

### Anti-Bribery and Corruption and Modern Slavery Act compliance

The Committee also continued to focus on the Group's legal compliance programmes as, notwithstanding the Covid-19 pandemic, these remain of critical importance, particularly as regards Anti-Bribery and Corruption (ABC) and compliance with the Modern Slavery Act (MSA).

During the year under review, the Committee reviewed an internal audit report on the Group's ABC programme and it also reviewed the steps taken by the Group to continue to mitigate the risk of slavery, as defined in the MSA, within its own business and supply chains, as those are described in the Company's modern slavery statement published on its website.

### Divisional risk reviews

Due to its intensified focus on the Company's financial reporting and internal controls during the pandemic and pandemic-related restrictions which prevented Committee members from travelling to the Company's operations in Europe and North America, some activities have had to be rescheduled. The Committee has will now carry out its scheduled detailed reviews of the Group's ALSA and North America divisions' risk registers in 2021 when it may be possible to travel and meet with the divisional risk managers in-person and observe their procedures first-hand. If travel is not possible, these reviews will be carried out remotely.

### External audit

The Committee is also responsible for reviewing both the effectiveness of the Company's external audit process and the auditor's independence and objectivity.

### Tender

During the year under review and in compliance with applicable law having regard to the tenure of the Company's incumbent auditor, Deloitte LLP, the Committee undertook and concluded an external audit tender.

The tender process began in 2019 with six audit firms invited to register their interest, alongside which the Committee undertook a review, with the input of firms that expressed an interest, of their independence by assessing the work they undertook for the Group. Of the six audit firms invited, three initially declined to be considered and another one declined at a later date. One explained that it was not their current policy to take on new audit engagements. One declined as a result of not being able to attain adequate independence from the Group. The other two, after due consideration and discussion with myself and the Group Chief Financial Officer on scope, stated that they did not believe they had adequate resources to carry out the audit.

In September 2020, the Committee therefore launched a formal request for proposal from the two remaining audit firms. A particular focus of the Committee and desired outcome was to see enhanced use of technology in future audits and the ability to better measure audit quality. Following due consideration of the proposals submitted by, and presentations made by, the two firms, including their submissions addressing the Committee's key areas of focus, in November 2020 the Committee recommended to the Board the re-appointment of Deloitte LLP as auditor for a new term starting from 1 January 2021. The Board concurred and is making its own recommendation to shareholders for Deloitte's reappointment, as set out in the Company's Notice of 2021 AGM.

Stephen Griggs, who has held the role of the Company's Audit Partner for five years, is stepping down from his role in line with the FRC's Ethical Standards. Following a thorough interview process by members of the Committee and management, Jane Whitlock has been appointed as the new Audit Partner effective from 1 January 2021, subject to the approval by shareholders of the re-appointment of Deloitte LLP as auditors.

The Company confirms that it complied with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

### External audit plan

The 2020 external audit plan prepared by Deloitte was based on the performance of full scope audit procedures for each of the Company's UK and Germany, ALSA and North America divisions. Unsurprisingly, a key focus of the external audit was the assessment of the Company's going concern status and future viability. Following consideration and consultation with management, Deloitte's audit plan, together with its audit fee proposal (of £1.7 million), were approved by the Committee.

### External audit effectiveness

The Committee reviewed the effectiveness of Deloitte's performance as auditor in respect of the year ended 31 December 2020 shortly following completion of its work by means of an evaluation. This took the form of questionnaires completed by members of the Group and divisional finance teams, supplemented by feedback from the Group Chief Financial Officer and members of the Committee. It was also supported by learnings from the audit tender and Deloitte's response to the tender. The evaluation confirmed that Deloitte continues to perform its audit work to a high standard, in particular as a result of its comprehensive understanding of the Group's businesses and control processes, the matters on which significant accounting judgements or estimates are required and its appropriate validation or challenge of management's views.

### Non-audit services and independence

The Company operates a non-audit services policy which set outs the circumstances in which its audit firm may be considered and engaged to provide permitted non-audit services as well as the services which its audit firm is prohibited from providing, for the purpose of safeguarding the auditor's objectivity. The Committee reviewed the policy during the year and concluded that it remained fit for purpose. It also reviewed the Company's compliance against the policy, which was confirmed by reference to a list of non-audit services provided by Deloitte during 2020. These comprised the interim review of the half year results and services in connection with the Company's update of its Euro Medium-Term Note programme in October 2020 and issuance of its hybrid instrument in November 2020. The total fees for these services were £0.4m, representing approximately 23% of the Group's total audit fees for the year under review.

Having regard to the above, together with Deloitte's report to the Committee confirming its independence by reference to its internal safeguards and also the tenure

of the audit firm and audit partner, noting the tender and change in audit partner going forwards, the Committee assured itself of Deloitte's ongoing independence.

### Fair, balanced and understandable

Having carefully reviewed the content of the 2020 Annual Report, and considered management's approach to its preparation, including with regard to all applicable laws, the FRC's best practice guidance and the UK Corporate Governance Code, and having heard the views of its auditors, the Committee recommended, and in turn the Board confirmed, that the 2020 Annual Report, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's position and performance, business model and strategy.

### Committee composition, effectiveness and engagement

In February 2020, Chris Muntwyler and Lee Sander stood down from the Committee due to their long tenure on the Board. I would like to express my thanks and that of other Committee members to both for their long and valued service to the Committee. Notwithstanding these changes, membership of the Committee remained fully compliant with the recommendations of the UK Corporate Governance Code, as it was comprised of all and at least three independent Non-Executive Directors with appropriate accounting, finance and other relevant experience and skills throughout the year under review. The Committee's annual performance evaluation also confirmed that it continued to function effectively, as set out on page 81. As noted at the outset of this Report, the Committee's members

were also pleased to bring their experience and expertise to bear in supporting management on the Company's key finance initiatives, including its inaugural hybrid instrument, during the year under review.

The Committee's plans to engage directly with the Group's divisions' risk management teams during the year under review have been deferred to the current year as explained above, but members of the Committee participated in the Director workforce engagement events held during 2020 and were able to hear directly from colleagues about the changes in their working practices and other impacts of the Covid-19 pandemic which helped inform our work.

I and my fellow Audit Committee members look forward to being able to engage with shareholders at the upcoming AGM and we will be happy to answer any questions you have on our work then.



**Mike McKeon**  
Audit Committee Chair  
18 March 2021



## Appendix 1 – Accounting judgements and estimates

### Significant accounting judgements and estimates

The preparation of financial statements requires the application of certain judgements and estimates and the Committee considered the following significant accounting judgements and estimates as part of its review of the Consolidated Financial Statements:

	Significant judgement/estimate	Committee action and conclusion
Impairment of goodwill (see note 14 to the Consolidated Financial Statements)	<p>The Committee considered whether the carrying value of goodwill held on the Group's balance sheet at the year end (£1,525.4m) should be impaired.</p> <p>The potential risk is that this goodwill cannot be supported by the long-term future cash flows of the business, particularly in relation to the ALSA (£820.1m) and North America (£652.7m) businesses, with the key estimation being made in relation to the application of discounted cash flows on a value in use basis. The value in use calculation is particularly sensitive to changes in discount rates and perpetual growth rates.</p>	<p>The Committee considered a detailed report from management which explained the impairment analysis and testing undertaken on the value of the ALSA and North America business goodwill balances. These were modelled on long-term forecast cash flows, discounted using a country-specific weighted average cost of capital (WACC) and a terminal value based on a perpetual growth rate (PGR). In particular, the Committee considered the extent to which the Covid-19 pandemic impacted on the short and long-term projections, and therefore the extent to which it affected the impairment assessment.</p> <p>The Committee concurred with management's view that neither the ALSA nor North America business goodwill as at the balance sheet date is impaired. This was based on management's careful analysis and testing, which demonstrated that there were healthy levels of headroom in the value in use compared to the carrying value of the assets, and was determined following consultation with the external auditor.</p>
Separately disclosed items (see note 5 to the Consolidated Financial Statements)	<p>Consistent with prior years, the Group presents profits and earnings per share measures before separately disclosed items in order to provide additional useful information to shareholders on the Group's performance. The classification of separately disclosed items requires significant management judgement after considering the nature and intention of a transaction. Specifically, judgement has been required to identify incremental costs associated with the Covid-19 pandemic that are not expected to arise in future periods and so do not form part of the underlying operating activities of the Group.</p>	<p>The Committee considered management's detailed breakdown of separately disclosed items and the rationale for these being presented separately. In particular, the Committee verified that management had applied the FRC guidance on separately disclosing items directly attributable to the pandemic, i.e. that the treatment was:</p> <ul style="list-style-type: none"> <li>– even-handed in identifying any gains as well as losses;</li> <li>– not describing amounts as 'non-recurring' or 'one-off' if they are also expected to arise in future periods;</li> <li>– not disclosing costs as exceptional solely because of a reduction in, or elimination of, the related revenue streams due to the Covid-19 crisis; and</li> <li>– not identifying incremental costs as exceptional if they result in incremental revenue that is not also described as exceptional.</li> </ul> <p>After discussion with management and the external auditor, the Committee concurred with the approach taken.</p>
Onerous contract provisions (see note 26 to the Consolidated Financial Statements)	<p>The Committee reviewed the approach taken in recognising £105.7m of onerous contract provisions in the year.</p>	<p>As c.60% of the Group's revenue is derived from contracts and the Group made a loss for the year ended 31 December 2020, in addition to reviewing management's estimation of the onerous contract provisions, the Committee considered the completeness of the provisions booked.</p> <p>The Committee concluded it agreed with management's approach and estimations.</p>

**Significant judgement/estimate**

**Committee action and conclusion**

<p><b>Insurance and other claims provisions (see note 26 to the Consolidated Financial Statements)</b></p>	<p>The Committee considered the adequacy of the provisions associated with insured and other claims arising predominantly from traffic accidents and employee incidents, particularly in North America.</p> <p>The estimation of such provisions, including those arising on acquisition, is based on an assessment of the expected settlement of known claims together with an estimate of settlements that will be made in respect of incidents incurred but not yet reported at the balance sheet date.</p> <p>Given the level of uncertainty, complexity and judgement involved in making these estimations there is a risk that the eventual outcome could be materially different from that estimated and provided for.</p>	<p>The Committee considered and discussed with management a report prepared by management with the input of the Group General Counsel which set out details of the status of the North America and other material open claims made against members of the Group. This report gave management's assessment, made with the benefit of advice from external actuaries, legal counsel and insurance brokers, on the likely outcome of such claims, together with an explanation of the methodology used to determine the value of provisions for such claims. Based on this, management was of the view that the level of provision was appropriate.</p> <p>The Committee concluded that management's estimation of the provision for North America insurance and other claims was within an acceptable range of the potential outcomes and accordingly was fairly stated.</p>
<p><b>Valuation of put option in respect of WeDriveU (see note 25 to the Consolidated Financial Statements)</b></p>	<p>The Committee considered whether the value of the liability ascribed to the put option in respect of the remaining 40% of the shares in WeDriveU Holdings Inc. was reasonable, particularly in light of the fact that the exercise period for the put option is over the next two years and is therefore within a period likely to be impacted by the Covid-19 pandemic.</p>	<p>The Committee considered and discussed with management the valuation of the put option based on key assumptions made around EBITDA and net debt projections, and the expected timing of exercise of the option, together with specific testing and challenge by the external auditor of that calculation and those assumptions.</p> <p>The Committee satisfied itself of the reasonableness of management's assessment of the put option liability.</p> <p>In view of the material reduction in the put liability during the year, the Committee also discussed the presentation of this in the Consolidated Financial Statements.</p>
<p><b>Pension defined benefit obligation (see note 34 to the Consolidated Financial Statements)</b></p>	<p>The Committee reviewed and considered the assumptions used to calculate the pension scheme assets and liabilities to satisfy itself that appropriate consideration and balance had been applied.</p>	<p>The Committee satisfied itself that the judgement and estimates made by management were reasonable and that they had been appropriately accounted for or otherwise disclosed in the Consolidated Financial Statements.</p>

**Other accounting judgements and estimates**

While not significant, the Committee also carefully reviewed and considered the Company's accounting for other matters, including: business combinations; financial instruments; and tax accounting.



## Appendix 2 – System of internal control

The Company's system of internal control is based on a three lines of defence model as illustrated in the diagram below:



These lines of defence include the following activities:

- Regular Board and Committee meetings throughout the year, to consider a structured programme of agenda items determined by reference to Board Reserved Matters and Committee Terms of Reference and the needs of the business
- Annual strategy review by the Board, performed following detailed input from the divisions and relevant Group functions, and development and implementation of divisional plans to deliver against Group strategy
- Annual and monthly budget reviews, performed at Group and divisional level
- A devolved organisational structure below Board level with clear leadership, allocation of responsibility and reporting lines
- Monthly Group Executive Committee meetings at which all Group functional heads report to the Group CEO and Group CFO on key successes, challenges, developments in the month and performance against pre-agreed KPIs
- Monthly and weekly divisional executive meetings at which divisional management teams discuss key successes, challenges, developments in their businesses and agree actions
- Approved delegated authorities to ensure all major decisions relating to business change, including via M&A and bids, and significant capital and operating expenditure are taken at the appropriate level
- Group and supporting divisional policies and procedures regarding tax and treasury compliance, anti-bribery and corruption, modern slavery and human trafficking, and data usage and protection
- Audits by the Group internal audit function
- Group-wide whistleblowing procedures
- Global Safety Policies and Standard Operating Procedures to set high and consistent standards of safety and operation across the Group, and achieve safe and efficient operating outcomes