



“The committee is responsible for recommending to the Board the in-depth risk focus areas.”

Adrian Ewer,
Audit Committee Chair

As Audit Committee Chair, I am pleased to present the committee’s report for the year ended 30 June 2018. This report should be read in conjunction with the section on how we have complied with the 2016 UK Corporate Governance Code, (the Code), on pages 110 to 115. As required by the Code, I have relevant financial experience to chair this committee and my fellow committee members bring a wide range of financial and commercial expertise which has enabled the committee to meet its responsibilities in a robust and independent manner.

Q Were there any changes to the key areas of focus for the committee this year?

There were no significant changes to the committee’s key areas of focus this year. These continued to include monitoring the integrity of the Group’s financial statements and maintaining an appropriate relationship with Deloitte LLP, the Group’s external auditor. Reviewing the effectiveness of the Group’s system of risk management and internal controls, including risk appetite, was a key topic, with a particular focus on cyber security risks (including those associated with the holding of personal data) and ensuring IT controls remain robust and dynamic. The committee discussed in detail management’s assessment of income and costs relating to performance regimes and contractual obligations, to receive assurance that such assessment has been carried out appropriately. During the year, the most significant judgements were in relation to GTR and the ongoing discussions with the DfT regarding a number of contractual variations. Discussions centred around two unresolved items, namely timetable specifications and rolling stock cascades. Towards the end of the year, the committee discussed the timetable change and potential contractual implications of its implementation. The committee scrutinised management’s judgement on the range of uncertainty around profitability of the Group’s rail division for the year ended 30 June 2018 and the external auditor confirmed its agreement with management’s view. The committee was therefore satisfied with the conclusions reached.

More information on the key financial and internal control matters considered during the year is on page 80. Read about the key features of the Group’s internal control and risk management system on page 81.

Q What are the committee’s main activities in relation to risk management and internal control?

While the Board has overall responsibility for risk management and the system of internal controls, the committee plays an important role in supporting the Board in fulfilling its responsibilities, particularly in overseeing the effectiveness of the processes and controls in place.

The risk management framework and reporting provide the basis for the committee’s discussion of the risks across the Group, including how they are identified and assessed in terms of their potential impact. The committee reviews the controls in place to mitigate these risks and to ensure that they all remain within the Group’s risk appetite. The committee is responsible for recommending to the Board the in-depth risk focus areas which, during the year, included presentations to the Board on IT resilience and cyber security, security and counter terrorism measures, the new General Data Protection Regulation and rail bidding and forecasting.

Q What is the committee’s role regarding health and safety?

Health and safety reporting is a key feature of our risk management and internal control framework. The committee oversees the health and safety audit programmes in place across all of our operating companies and reviews their audit findings. During the year, the committee also focused on the quality of process, procedure and policy of contractor management, in addition to strengthening health and safety standards and reporting.

Read more on page 79.

Q What are the committee’s main activities in respect of the Group’s financial reporting?

The committee reviews, with both management and the external auditor, the half year and annual financial statements. Our key role is to ensure that the key accounting policies, estimates and judgements applied in those financial statements are reasonable.

The committee assists the Board in undertaking its assessment as to whether the Annual Report and Accounts taken as a whole, is fair, balanced and understandable, and provides the necessary information to allow shareholders to assess the Group’s position, performance, business model and strategy. This assessment forms the basis of the advice given to the Board to assist in making the statement required by the Code.

The committee also reviews the assumptions and provides assurance to support the going concern basis adopted in the financial statements, as well as the long term viability statement contained within the Annual Report and Accounts.

Q How does the committee review whistleblowing, fraud and anti-bribery procedures?

During the year, the committee monitored the Group’s whistleblowing arrangements. The committee received a report which confirmed the review undertaken of all policies in place across the Group and operating companies. Any matters of a whistleblowing nature raised at our operating companies during the year are reported to the committee and, while none were of a significant nature, we view the reporting of such incidents as a positive reflection of our culture.

The committee also reviewed the processes in place around fraud and anti-bribery procedures, with a number of key control measures, reporting and the sharing of best practice all improved during the year. Fraud risk assessments are now also incorporated into internal audit planning.

Q What were the findings of the annual committee effectiveness review?

A review of the committee’s effectiveness was carried out internally this year as part of the Board’s evaluation. The committee was invited to discuss the content, management, quality and focus of discussion during meetings. I am pleased that the review found the committee continues to operate effectively, with the high quality reports and information enabling us to continue to discharge our duties and responsibilities. In particular, there were improved processes and reporting of risk management, which supported the key risk focus areas that the committee recommended to the Board for more in-depth discussion.

Q What was the outcome of the Financial Reporting Council’s (FRC) Audit Quality Review?

The FRC’s Audit Quality Review team selected the audit of Go-Ahead’s 2016/17 financial statements to review as part of their 2018/19 annual inspection of audit firms. The focus of the review and their reporting was on identifying areas where improvements were required rather than highlighting areas performed to or above the expected level. A full copy of the review was discussed with the external auditor at a pre-audit committee meeting, before discussion with the wider committee. The committee is pleased to confirm that there were no significant areas for improvement identified and they were satisfied that there was nothing within the report which might have a bearing on the external auditor’s appointment.

Q What will the committee’s focus be for the year ahead?

Our focus will be on continuing to exercise our assurance oversight role in the best possible way and remaining well informed of best practice. Overseeing the significant financial judgements and providing assurance to the Board will remain high on our agenda as will challenging the external auditor to continue to audit the Group’s financial statements robustly. Another key priority will be to continue to review the effectiveness of the Group’s system of risk management and internal controls and ensure the Board assesses certain key risks in-depth to gain an understanding of how they could affect our strategic objectives and to ensure they remain within our risk appetite.

I would like to thank the other members of the committee, together with management and the internal and external auditors, for their engagement and support during the year.

Viability statement

During the year, the committee reviewed the updated wording of the Group's longer term viability statement, set out on page 45. In order to do this, the committee ensured that the model used for scenario and sensitivity testing aligned clearly with the principal risks of the Group, challenged the underlying assumptions used, and reviewed the results of the detailed work performed. The committee was satisfied that the viability statement had been prepared on an appropriate basis and that the statement was justified.

Audit committee highlights

- Reviewed the effectiveness of the Group's system of risk management and internal controls, including risk appetite
- Continued to assess cyber security risks (including those associated with the holding of personal data), with a focus on ensuring IT controls remain robust and dynamic
- Monitored improvement in IT resilience and capability
- Continued to build on improvements to health and safety reporting with a focus on reviewing and refining the end-to-end process for managing suppliers and contractors
- Assessed potential impact of the new accounting standard IFRS 16 (which is effective for accounting periods beginning on or after January 2019)
- Reviewed the key financial and internal control matters during the year and provided assurance to the Board that the Annual Report and Accounts taken as a whole is fair, balanced and understandable
- Reviewed GTR's financial and operational performance and forecasts, as well as the timetable change and potential contractual implications of its implementation
- Reviewed the robust assessment undertaken by management to support the Group's viability statement
- Reviewed documentation prepared to support the Group's going concern statement and concluded that the accounts had been properly prepared on a going concern basis
- Reviewed the work undertaken with the Group's tax advisors, Ernst & Young LLP, to assess the levels of risk across the business with respect to the Corporate Criminal Offences Act
- Reviewed the effectiveness of the internal and external audit process and reappointment of the external auditor
- Reviewed the effectiveness of the committee, including an annual review of its terms of reference

External audit

The committee has primary responsibility for overseeing the relationship with, and performance of, the external auditor. This includes making the recommendation as to the appointment, reappointment and removal of the external auditor, assessing their independence on an ongoing basis and negotiating the audit fee.

Effectiveness of the external audit process

During the year, the committee undertook an assessment of the quality and effectiveness of the external audit process which consisted of:

- Assessing each phase of the audit process against a quality framework. This included the key focus areas of audit planning and design, audit execution, Group-wide policies and procedures and role of management
- Through a constructive, honest and open dialogue with the external auditor, discussing what areas had worked well and what could be improved
- Confirming optimised assurance was being derived from the audit
- Assessing effectiveness against a range of valuation components including skills and knowledge, mindset and culture, judgement and quality control
- Considering input from the Group Chief Financial Officer, key members of the Group Finance Team and the Group Company Secretary. Deloitte LLP also provided feedback on their own performance
- Reviewing progress against areas of focus identified from the 2016/17 external audit effectiveness review


The committee used the FRC's Audit Quality Practice Aid as guidance to support the committee's assessment of the external audit. Feedback arising from the assessment process was fed back to the Group's lead audit engagement partner so that any areas of improvement could be followed up.

The observations from the assessment were presented and discussed at a committee meeting, with the committee concluding that the audit process was robust, challenging and appropriately targeted to focus on the key areas of audit risk.

Independence, objectivity and non-audit services

The Board recognises the importance of auditor independence and is aware of the situations which may give rise to the impairment of auditor independence. The audit committee considers carefully on an annual basis the objectivity of the auditor in relation to both the audit process and the relationship with the Group.

During the year, the committee considered the extent of the non-audit services provided by Deloitte LLP.

 Details of the provision of non-audit services and associated fees are included on page 113 and the full policy is included within the audit committee's terms of reference available at www.go-ahead.com.

Financial reporting

Fair, balanced and understandable

The committee adopted the same approach as in previous years to ensure that the Annual Report and Accounts (collectively, the Annual Report) is fair, balanced and understandable. The process was led by an internal Annual Report Team (ART) consisting of members drawn from Group Finance, Group Company Secretariat and Investor Relations teams. The inclusion of these various departments, with input from Group Legal and operating divisions as appropriate, ensured the balance, completeness and accuracy of the Annual Report. The ART was responsible for regularly reviewing work and ensuring balanced reporting with appropriate links between key messages and sections of the Annual Report. The audit committee, together with senior management, reviewed the Annual Report in its final stages, and the committee and then the Board were able to confirm that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

Health and safety in action

Contractor management and controls



We are committed to continually improving our Health, Safety and Environmental (HS&E) standards across the Group and have focused a significant amount of time and resource in reviewing, testing and improving the policy and procedures across all aspects of supplier management.

During the year, the committee were appraised of a new framework, which had been developed to better understand the different interactions, responsibilities and roles the Group has with our suppliers. Three distinct processes were identified, namely: supplier approval at the Group procurement tendering stage; project planning at operating company level; and daily task supervision at depot or site level.

Potential suppliers are now asked to complete a comprehensive questionnaire as part of the tendering process to ensure they all have a good track record and share our commitment to HS&E standards. We are also writing to all of our current suppliers to retrospectively approve their HS&E credentials, in addition to applying the process to all new contracts. We have developed a planning template and process so that, prior to any work taking place on a site, all parties and stakeholders are identified with clearly defined roles and responsibilities. It is at this stage that risk assessments are reviewed to agree safe systems of work. Finally, all of the operating companies have reviewed their hosting arrangements to ensure that all visitors are appropriately supported whilst working on site.

In addition to our supplier base demonstrating their commitment to keeping people safe and well, the benefits within our business are apparent, with colleagues contributing to a common goal and engaging in constructive work. Over the year ahead, work to bring suppliers on board will continue. We are also looking for smart software solutions to help automate some of the processes and make even more transparent the controls and documentation in place to keep people safe.

Key financial and internal control matters

During 2017/18, the committee considered the following key financial and internal control matters in relation to the Group's financial statements and disclosures, with input from management and the external auditor:

Key financial and internal control matters for 2017/18	How the committee addressed these key financial matters
<p>Compliance with franchise terms and conditions relating to the rail components of the Group, specifically relating to the accounting for related income and costs arising from franchise agreements.</p> <p>See page 134 for more information</p>	<p>The committee regularly reviews the accounting policies relating to income and costs arising from franchise agreements and considers a range of reasonably probable outcomes. At interim and year end reviews, a full schedule of material income statement and balance sheet figures is assessed against the committee's expectations and discussed with the Group Chief Executive, the Group Chief Financial Officer and, where appropriate, the external auditor.</p>
<p>Ongoing review of provisions for liabilities, specifically relating to third-party claims, lease return and dilapidation provisions for rolling stock, stations, depots, other properties and measurement of uninsured liabilities.</p> <p>See note 24 of the consolidated financial statements</p>	<p>At interim and year end, the levels of provision for third-party claims, lease return and dilapidation provisions are reviewed with the Group Chief Executive and the Group Chief Financial Officer. Management's review is supported by reports from appropriate third-party experts who independently assess the required provision based on their industry knowledge and an understanding of the Group's specific circumstances. Increases in provisions, utilisation and release of provisions are all reviewed for reasonableness in light of these reports and the Group's specific circumstances.</p>
<p>Impairment testing in respect of the value of goodwill on the Group's investments.</p> <p>See note 13 of the consolidated financial statements</p>	<p>The ongoing review of goodwill and carrying value of investments, as presented by management, is challenged by the committee. This is done by assessing the expected performance of the individual cash generating units and ensuring that relevant risk factors are imputed to the rate of return used to assess net present value of future cashflows. The committee also reviews historic performance against expectations set in previous years.</p>
<p>Assumptions underpinning the calculation of the Group's defined benefit pension liabilities.</p> <p>See note 27 of the consolidated financial statements</p>	<p>Pension scheme liabilities are assessed on behalf of the Group by independent actuaries. Additionally, management reviews and challenges the underlying assumptions with other professional advisors to ensure that the actuaries' own assumptions are appropriate for the Group. The committee also discusses the appropriateness of the assumptions with the Group's external auditor.</p>
<p>Understanding and treatment of exceptional items in the year end accounts.</p> <p>See note 7 of the consolidated financial statements</p>	<p>The committee has considered separate disclosure of exceptional income or costs in light of the FRC recommendations of a balanced and consistent approach. The committee is mindful of the need to understand the underlying trends of each division within the business with the impact of large and unusual items separated out as necessary to avoid distortions from such non-recurring aspects.</p>
<p>Ensuring operating company compliance with Group policies and procedures and maintaining the required financial control environment.</p>	<p>The committee, together with the Group Chief Executive and the Group Chief Financial Officer, approve the scope of internal audit including the cycle of visits to test operating company compliance and financial controls, based on a risk assessment. The results of the internal audit visits are considered by the committee, together with management's responses to any improvement points. Control matters and reporting issues identified as part of the external auditor interim and year end audits are also reviewed by the committee which considers the adequacy of any management responses. In addition, management ensures that the recruitment and review process for operating company directors gives confidence in the calibre of the operating company teams and their management, and review of the control environment in which they operate.</p>

Risk management and internal controls

A summary of the key features of the Group's internal control and risk management system is set out below:



Assessment of the Group's risk management and internal control system

The Board has confirmed that, through its audit committee and the committee's review of the key financial and internal control matters for 2017/18 as detailed on page 80, it has reviewed the effectiveness of the system of internal, financial, operational and compliance controls and risk management and considers that this system of internal controls operated effectively throughout the financial year and up to the date on which the financial statements were signed.

The new internal audit plan subsequently approved by the committee has been monitored throughout the year and examples of the reviews undertaken during the year included:

- Revenue processes in areas such as Brighton and Hove Buses and Go South Coast
- Financial controls in Go South Coast, Go North East, Go East Anglia and Singapore
- Southeastern performance income

Internal audit function effectiveness

The committee monitors the effectiveness of the internal audit function annually. This review is led by the Audit Committee Chair, supported by the Group Company Secretary and Group Financial Controller. Input is sought from various sources with feedback then reviewed by the wider committee. The committee also holds a meeting with the internal auditors on an annual basis, without management present.

The committee concluded that the internal audit function provided effective assurance over the Group's risk and controls environment and was operating effectively. There were no significant concerns raised. The necessary procedures were also in place to ensure the appropriate independence of the internal audit function.

Internal audit

Internal audit for the 2017/18 financial year

The Group's internal audit function has been outsourced to Pricewaterhouse Coopers LLP (PwC). During the year, the committee agreed a different approach to the audit plan for the year ahead. Following an initial discussion with the committee, PwC held meetings with the Group Chief Financial Officer and Group Financial Controller to develop the detail of the plan. In addition to reviewing risk registers from across the Group, meetings were also held with operating companies and business assurance teams to understand key focus areas. Discussions were then held with the committee to develop and finalise the plan.