"Whilst the impact of Covid-19 has significantly subsided compared to the previous two years, the macroeconomic and geopolitical backdrop has brought other challenges to be navigated and the Committee has monitored the impact of these closely during the year"

Audit Committee Report

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 system of internal control and management of risk and the adequacy and effectiveness of the internal audit function and external audit

The Committee's terms of reference, reviewed and approved annually, are available on the Company's website at www.nationalexpressgroup.com

Key responsibilities

- Monitor the integrity of the Group's published financial information and review and challenge as appropriate any significant financial judgements 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 management of risk, in terms of identifying, managing and mitigating principal risks and identifying and mitigating where possible emerging risks
- Review the Group's policies, processes and controls for the detection and prevention of fraud, and for compliance with applicable laws, regulations and internal policies, including relating to anti-bribery, anti-slavery and data protection
- Approve the activities, review the findings and assess the effectiveness of the Company's internal audit function
- Monitor the activities, consider the opinions and assess the independence and effectiveness of the external auditor
- Review the Company's Annual Report and advise the Board whether, taken as a whole, it is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy

Activity highlights

- Reviewed and satisfied itself as to the integrity and fairness of the Group's half and full year financial statements and the appropriateness of their being prepared on a going concern basis
- Assessed and challenged the appropriateness of the Company's viability statement
- Assessed and challenged management's approach to key accounting judgements and estimates including the impairment of goodwill in respect of the ALSA division
- Reviewed the findings and monitored the effectiveness of the internal audit function, and reviewed the programme of internal audits for the year ahead
- Review of effectiveness of risk management and internal control systems
- Reviewed the opinions and monitored the independence and effectiveness of the external auditor
- Supported the Board in its management of risk by its continued programme of 'deep dive' reviews into divisional risk and its ongoing review of cyber risk
- Reviewed the framework of the Group's compliance programme and the corporate policies comprised within it

Membership, meetings and attendance

Committee member	Appointed	Resigned	Meetings attended/ meetings held
Mike McKeon (Chair)[1]	03.07.15	–	4/4
Ana de Pro Gonzalo[1]	01.10.19	–	4/4
Carolyn Flowers[1]	04.12.21	–	4/4

1 Independent Non-Executive Director

Other attendees: Group General Counsel and Company Secretary, the Chair of the Board, Group Chief Executive Officer, Group Chief Financial Officer, Group Financial Controller, Group Head of Internal Audit, Group Head of Compliance & Risk and representatives of the external auditor, Deloitte LLP

In addition to the 4 scheduled meetings recorded above, the Committee held additional dedicated meetings to review the divisions' principal and emerging risks and their management of such risks, as further explained on page 130

Further information about the Committee members is set out on pages 98 to 101

Dear fellow shareholder

I am pleased to present the Audit Committee Report for 2022. During the year under review, the Audit Committee's core duties remained unchanged. While the impact of Covid-19 has significantly subsided compared to the previous two years, the macroeconomic and geopolitical backdrop has brought other challenges to be navigated and the Committee has monitored the impact of these closely during the year. A total of four meetings were held during the year, as well as four deep dive divisional risk register reviews.

Financial reporting

The Committee is responsible for considering and satisfying itself, after consultation with the Company's external auditor, that the Company and its Group have adopted suitable accounting policies and appropriately applied the same, that management has made appropriate accounting judgements and estimates, that the adoption by the Company of the going concern basis of accounting is appropriate and that its viability statement is reasonable.

Key accounting matters

Details of the key accounting matters addressed by management when preparing the Consolidated Financial Statements, together with information about how the Committee assessed, challenged where appropriate and satisfied itself that the judgements and estimates made by management in relation to them were reasonable, are set out in Appendix 1 to this Report.

Going concern assessment

As the Group emerged from the more significant impacts of Covid-19, the Committee reviewed and robustly challenged management's assessment that the Group's financial statements for the six-month period ended 30 June 2022 and for the financial year ended 31 December 2022 should be prepared on a going concern basis.

Management developed both base case and reasonable worst case financial scenarios over a 12-month look forward period using assumptions about trading drawn from the Group's strategic plan, budget and latest financial projections. They then applied stress tests to both those scenarios to determine whether the Company would be able to meet its liabilities as they fell due, having regard to the Group's liquidity and covenant tests; the latter reverting to pre-amended levels for all covenant tests from 2023 onwards. The Committee satisfied itself that, in both the base case and reasonable worst case scenarios, the Group would have sufficient liquidity and be able to comply with its debt covenants and there was no more than a remote possibility that it would not be able to do so even after the application of the further stress tests. Accordingly, the Committee recommended to the Board that the Company's, and its Group's, financial statements at the half and full year be prepared on a going concern basis.

Viability assessment

The Committee also carefully considered management's view of the Company's viability for the three-year period ending 31 December 2025, including the rationale for assessing viability over a three-year period. The testing of viability involved the analysis of base case and reasonable worst case scenarios projected forwards over this three-year period by reference to trading assumptions drawn from the Group's strategic plan, and factored in the impact of risks including known and likely future climate risks that could materialise over this three-year period, offset by reasonable mitigations. The Committee satisfied itself that, in both the base case and reasonable worst case scenarios, the Group should be able to continue in operation and meet its liabilities as they fall due. Accordingly, the Committee recommended to the Board that the Company make its viability statement as set out on pages 62 to 63 of the Strategic Report.

Risk management

The Board has overall responsibility for risk management. The Committee supports the Board by conducting 'deep dive' reviews into the Group's divisions' risk management activities (as explained in the section below on divisional risk reviews) as well as certain specific Group-wide risks, and by reviewing the Group's compliance programme.

Group risk appetite and principal and emerging risk review

The Board's risk appetite and assessment of the Group's principal and emerging risks, as well as a description of how the Group manages risk, are set out on pages 56 to 61 of the Strategic Report. The Group's climate-related risks and opportunities are considered in more detail in the TCFD disclosures on pages 81 to 94.

Audit Committee Report continued

Divisional risk reviews

During 2022, the Committee reviewed the Group's divisions' principal and emerging risks and their management of such risks. These were undertaken during additional dedicated meetings of the Committee at which risk and senior managers from each of the divisions presented their principal and emerging risk registers and explained how they were managing, and where possible, mitigating risk. Mirroring the Company's approved approach to Group-wide risk, the divisions record their risks in the form of heat maps which categorise both their likelihood and potential severity according to Group developed guidance. Each risk is then assigned a business owner who develops and oversees the delivery of mitigating actions, that are tracked at regular divisional management meetings.

The Committee observed that the Group's divisions had included both current and emerging strategic, compliance, financial, operational and reputational risks in their registers and had developed action plans to manage such risks over the different time profiles over which such risks could materialise. It was also pleased to note that certain matters identified as risks were also viewed as opportunities. Additionally, following the detailed exercise in 2021 to identify climate-related risks and opportunities, environmental risks had been identified and classified in all divisions' risk registers. Using insights gained from the Board's work on overseeing Group-wide risks and the Committee's work on reviewing divisional risks, the Committee was able to challenge each division on whether it had identified and appropriately classified its risks and whether it was adopting the most effective mitigation plans, and share best practices the Committee had observed within each division.

Through its reviews, the Committee has continued to be assured that each of the divisions has a robust risk identification and management process and was pleased to see that risk management has become embedded in the day-to-day business activities and culture of the divisions. Such reviews have also served to deepen Committee members' understanding of the risks the Group's different businesses face and, through the Committee sharing this understanding with the wider Board, they have informed the Board's ability to appropriately set the Group's risk appetite, assess the Group's principal and emerging risks and weigh up risks with opportunities when taking key business decisions.

Cyber risk review

Cyber risk remained a standing item on the Committee's agenda in 2022, with the Group's ongoing cyber security programme, and the progress being made against the specific deliverables comprised in such programme, assessed at each of the regularly scheduled Committee meetings.

Compliance risk

The Group has a range of existing policies and procedures for ensuring compliance with applicable laws and regulations and relevant codes of conduct, including Group-wide policies on business ethics, anti-bribery and corruption, modern slavery and whistleblowing, and divisional policies and procedures which either implement or supplement the Group policies having regard to local laws, regulations and best practice. The Group's whistleblowing procedures include access to an independently managed whistleblowing hotline via which the Group's stakeholders, including employees, can raise concerns, anonymously if they so wish. Reported concerns are duly investigated and acted upon by management or the functional support teams as appropriate, with serious cases and their outcomes reported to the Board.

In 2021 the Group engaged a new dedicated Group Head of Compliance and Risk. During 2022 the work of this role included developing a Policy Compliance Management Framework that: establishes a common approach globally for all policy owners to manage their policies; sets out the minimum requirements across all divisions; provides guidance on policy creation and review; and provides ongoing awareness and training against these. Additionally, the Group Head of Compliance and Risk has been managing the Risk Management Framework globally and continuously improving the second line of assurance. The Group Head of Compliance and Risk, working with the Group Chief Financial Officer and Group General Counsel and their teams, has also been keeping the proposed reforms on audit and corporate governance under review and has made recommendations to the Committee on how to comply with the new requirements and implement best practice recommendations. At the request of the Committee, the Group Head of Compliance and Risk attends all Committee meetings to both report on progress in her area and to have an understanding of other aspects of the Committee's work.

Internal control

The Committee is responsible for monitoring the adequacy and effectiveness of the Company's system of internal control and subsequently reporting on this to the Board.

System of internal control

The Company's system of internal control is based on a three lines of defence model, with a number of component controls operating at each of those lines, as illustrated in Appendix 2 to this Report.

The Committee assesses the performance of the three lines of defence model, as well as the operation of internal controls through the year and up to the date of approval of the annual report and accounts, through its review and challenge of the work performed by the internal audit function. In addition the Committee requests follow-up updates from management on controls in specific areas, for example in response to the findings frominternal audits or risk reviews.

In light of the BEIS white paper on restoring trust in audit and corporate governance, the Committee reviewed management's plans to prepare for what the eventual requirements may be. While the requirements are not yet certain, the Committee and management agreed that steps should be taken to further strengthen the Company's internal control environment.

Management's progress during the year, reviewed by the Committee, included:

- Conducting a scoping exercise, supported by EY, to determine the scope of internal controls framework that should apply to each entity, under an enhanced internal controls requirement.
- Engaging an internal controls and SOX specialist, on an interim basis, to review and document the internal controls in the UK division, including the outsourced shared services centre in India.
- Developing a roadmap for implementing a group-wide enhanced internal control environment.

The Committee will continue to evaluate future developments in this space.

Internal audit

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

The 2022 audit plan included: audits of standard divisional financial controls; audits of key safety and operational controls; reviews of newly acquired businesses, such as Gumidafe in the Canary Islands, Rober in Granada, and Dublin; audits of particular operational initiatives including the driver recruitment process in North America; and audits on core Group-wide controls and initiatives such as the delivery of the Group's cyber security programme and the ESG agenda.

Internal audit reported all the findings from its audits and recommendations for follow-up management actions to the Committee.

During the year, Internal Audit also conducted a review to confirm that, in a context of a global shortage of key goods and materials, increased supply chain disruptions, and increased logistical and shipping costs, the Group has reviewed its third party supply chain and taken appropriate steps to reduce the impact of those risks.

Internal audit effectiveness

The Committee is responsible for monitoring the effectiveness of the internal audit function. In respect of its work in 2022, the Committee monitored this effectiveness by reviewing the scores that colleagues, whose work or controls were subject to internal audit, awarded to the function on a 'value scorecard' and by making its own assessment of the quality of that work. The Committee is satisfied that the Company's internal audit function continues to be effective.

Significant weaknesses or control failures

Following its review of and conclusions from all elements of assurance, the Committee is satisfied that there are no significant weaknesses or control failures to report in respect of the Company's financial year ended 31 December 2022 other than in respect of deferred tax. During the year a couple of errors were identified in respect of previous periods that were collectively material and as such were corrected as a prior year adjustment. A review of the Group's controls over deferred tax has been initiated and will be concluded during the first half of 2023, with enhanced controls implemented and operating before the tax balances for the year ended 31 December 2023 are determined.

External audit

Deloitte LLP is the Company's auditor. Deloitte was first appointed as auditor in 2011 and, following its selection in the Company's audit tender conducted in 2020 and shareholders' approval given at the Company's 2022 AGM, was re-appointed in 2022. Deloitte's continued appointment will be subject to shareholders' annual approval at prospective Company AGMs. Jane Whitlock is the Company's audit partner, completing her second year in that role, following the mandatory rotation of the previous Deloitte audit partner in 2021. The Company has therefore complied with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

External audit plan and fee

The 2022 external audit plan, which was prepared by Deloitte and reviewed and approved by the Committee, comprised full scope audit procedures for the Group's UK, ALSA and North America divisions and a limited scope audit on the German Rail division. It included: the review by Deloitte of the Consolidated Financial Statements; its challenge of management's significant judgements and estimates; its review of certain of the Group's key financial and fraud controls and of the risk of management override of controls; and its consideration of certain aspects of the Group's non-financial reporting, including the Group's TCFD disclosures. Deloitte's fee for undertaking the 2022 audit, of £2.45m, was also approved by the Committee.

As part of the external audit plan, Deloitte also presented to the Committee a proposed set of audit quality indicators. These were agreed by the Committee and the results will be reviewed following completion of the 2022 year-end audit process.

External audit effectiveness

The Committee is responsible for reviewing the effectiveness of the Company's external audit. The Committee did so by considering the outcome of colleagues' evaluation of the quality and efficiency of Deloitte's work, using an audit quality indicator framework developed in the year in line with the framework set out by the Financial Reporting Council, and is satisfied

Audit Committee Report continued

that Deloitte performed its work to a high standard. As noted above, Deloitte's performance against its audit quality indicators will be reviewed at the next Audit Committee meeting.

External auditor provision of non-audit services and independence

The Committee is also responsible for reviewing the auditor's independence and objectivity. The Company operates a non-audit services policy which sets out the permitted and prohibited non-audit services its auditor may be engaged to provide, for the purpose of safeguarding the auditor's objectivity. The Committee reviewed the policy during the year and determined it remained fit for purpose. It also reviewed the Company's compliance with the policy, which was confirmed as Deloitte performed only permitted non-audit services during 2022 for which its fees totalled £0.3 m, representing 12% of the total audit fee. The non-audit services during 2022 principally comprised the 2022 half year review and comfort letters in respect of the European Medium Term Note renewal. The Committee concurred with management that the auditor was best placed to undertake these services given that both services are aided by knowledge gained during the annual external audit.

Having regard to the operation of the non-audit services policy during 2022, together with Deloitte's reports to the Committee confirming its independence at the half and full year, the Committee assured itself of Deloitte's ongoing independence.

Board assessment of effectiveness

Taking account of the Committee's work on assessing the effectiveness of the Company's system of internal control, and both the Committee's and its own work on assessing the Group's management of risk, the Board is satisfied that these are effective and have been over the year.

Fair, balanced and understandable

Having carefully reviewed the Company's 2022 Annual Report, and considered management's approach to its preparation, including in compliance with applicable laws and having regard to the UK Corporate Governance Code, the FRC's best practice guidance, and having heard the views of its auditor, the Committee recommended, and in turn the Board confirmed, that this 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.

M McKeon

Mike McKeon
Audit Committee Chair
1 March 2023

Appendix 1 – Key accounting matters

The Committee considered the following key accounting matters as part of its review of the Consolidated Financial Statements:

	Key accounting matter	Committee action and conclusion
Impairment of goodwill (see note 14 to the Consolidated Financial Statements)	In determining whether assets are impaired or, in the case of ALSA, the quantum of impairment to be made, management is required to make a number of estimations and assumptions, including on future cash flow projections, discount rates and perpetual growth rates.	The Committee carefully considered management's work on the impairment analysis and testing of the value of the Group's goodwill balances, applying particular focus to the value of the impairment of the ALSA division's goodwill. These impairment assessments were based on modelled 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). The WACCs increased significantly in the year, principally due to increases in the risk-free rate and the cost of debt. After considering the assumptions made by management in forecasting cash flows, which remained largely unchanged, and its rationale for the WACCs and PGR, and taking into account the auditor's views on these matters, the Committee concurred with management's view that an impairment of £260.6m of ALSA's goodwill was required and that no impairment was required to goodwill attributable to other cash generating units. In arriving at the conclusion on the impairment of ALSA's goodwill, the Committee also reviewed management's assessment that its value-in-use calculation of the recoverable amount was not lower than the fair value less costs of disposal. A full explanation for the rationale behind why ALSA's goodwill was deemed to be impaired is set out in note 14.
Insurance and other claims provisions (see note 26 to the Consolidated Financial Statements)	The adequacy of the provisions associated with claims arising predominantly from traffic accidents and employee incidents in North America is subject to estimation based on an assessment of the expected settlement value of known claims together with an estimate of settlement values that could be made in respect of incidents that have occurred but not yet given rise to a claim at the balance sheet date. 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.	The Committee considered the information provided by management on the status of the North America and other material open claims5 made against the Group, together with advice from external actuaries and legal counsel on the likely outcome of such claims, as well as management's explanation of the methodology used to determine the value of provisions for such claims. After challenging whether management had considered all material open claims and incidents that could give rise to claims and the external advice given in connection with them, the Committee concluded that management's estimation of the value of such claims was within an acceptable range of the potential outcomes and accordingly was fairly stated.
WeDriveU put option liability (see note 24 to the Consolidated Financial Statements)	The value of the liability of the put option over the shares in WeDriveU Holdings Inc. not already owned by the Group is subject to estimation of future earnings performance.	The Committee considered management's valuation of the put option liability. This took account of the fact that options over a cumulative 20% of the shares had been exercised during 2021 and 2022, and the option over the remaining 20% shares is expected to be exercised in 2023. The valuation is based on WeDriveU Inc.'s 2022 EBITDA performance and net debt position, adjusted for certain items as agreed between the Group and the put option holders. Following this review, the Committee concluded that management's valuation was reasonable.

Audit Committee Report continued

	Key accounting matter	Committee action and conclusion
Separately disclosed items (see note 5 to the Consolidated Financial Statements)	The Group presents profits and earnings per share measures before separately disclosed items to provide more meaningful information to shareholders on the Group's underlying performance. The classification of separately disclosed items requires management judgement having regard to the nature and intention of the transactions to which they relate.	The Committee considered the nature and extent of the separately disclosed items identified by management and its rationale for why they did not form part of the Group's Underlying Operating Profit (a key APM). The Committee noted that this was the third year that certain Covid-19 related incremental costs were separately disclosed, but satisfied itself that these only represented the re-assessment of estimations in respect of items recorded as separately disclosed items in the prior year, and in any case were materially lower than the preceding two years. The Committee also noted that a charge of £31.4m had been made in respect of new onerous contract provisions and impairments directly attributable to the post-Covid market-wide issue of driver shortages in North America, and that this was material in nature and quantum, and hence was appropriate to be separately disclosed. After discussion with management and the external auditor, the Committee concurred with the approach taken.
Onerous contract provisions (see note 26 to the Consolidated Financial Statements)	The Committee reviewed the approach taken by management in retaining an onerous contract provision in respect of its RRX German rail concession, in re-assessing Covid-19-related onerous contract provisions recorded in previous years, and in recording new onerous contract provisions in respect of driver shortages in North America.	The Committee reviewed management's assessment and concurred with the onerous contract provisions recorded.
Recoverability of deferred tax assets (see note 27 to the Consolidated Financial Statements)	Over the last few years the Group's deferred tax assets in respect of tax losses have increased due to the impact of the pandemic on profitability. Furthermore, the impact of the pandemic has created consecutive periods of losses. In determining whether it is appropriate to recognise deferred tax assets management is required to consider whether there are sufficient deferred tax liabilities against which to offset these deferred tax assets and, where this is not the case, to satisfy itself both that the recent history of consecutive losses can be explained as being due to the temporary impact of the pandemic and its aftermath (and is therefore not expected to be recurring) and that there are sufficient taxable profits projected in order to utilise these losses in an appropriate timeframe.	The Committee considered management's assessment of the causes of the recent history of losses and its assessment of future profit projections, including ensuring that these projections were derived from the long-term financial planning projections reviewed as part of the Board's annual strategic plan review. After considering the above, the Committee concurred with management's view that it remained appropriate to recognise these deferred tax assets.
Pension liabilities (see note 33 to the Consolidated Financial Statements)	The determination of the defined benefit obligation of the UK defined benefit pension scheme depends on the selection of certain assumptions. In particular, a key area of estimation uncertainty is in respect of the discount rate.	The Committee reviewed the assumptions made by management in determining the defined benefit obligation, including considering the advice from independent qualified actuaries, and concluded that they were appropriate.

Appendix 2 – System of internal control

Third line of defence

Board of Directors
Sets and monitors delivery of Group strategy, sets Group risk appetite, assesses the Group's principal and emerging risks and approves significant matters reserved to it

Audit Committee
Assists the Board in assessing risk management and reviews the effectiveness of the internal audit function and the external audit

Internal Audit Function
Audits the effectiveness of the Company's first and second line internal controls through the independent observation and objective assessment of such controls

Second line of defence

Group Executive Committee
which monitors the frameworks, policies & procedures and effectiveness of the functions referred to below

Group Compliance Framework
under which corporate policies, such as those on anti-bribery and anti-slavery, are created and enforced

Group Whistleblowing Procedures
by which internal and external stakeholders can raise concerns about wrongdoing

Group Safety Policies
set minimum expectations for safety outcomes, such as speeding and driver risk monitoring

Group Standard Operating Procedures
set minimum standards for operations, such as vehicle maintenance and driver rostering

Group Risk Management Reporting Guidelines & Group Head of Compliance and Risk
which help track the management and, where possible, mitigation of risks and calibrate the severity and likelihood of risks

Group Cyber Security Programme & Group Cyber Security Team
which set cyber security strategy and control and monitor progress against that strategy and compliance with those controls

Group Environmental Data Reporting Guidelines & Group Sustainability Director
which help track delivery of environment strategy and ensure the integrity and consistency of environmental data collection and its reporting

Group Consolidated Financial Reporting & Group Finance Team
which consolidate and review Group financial results

Group Treasury & Tax Functions
which centrally manage Group treasury activities and set Group tax strategy and review tax compliance

Group Legal Reporting & Group General Counsel
which monitor, report and provide legal advice on Group legal risks

First line of defence

Divisional Executive Committees
which monitor the policies and procedures and the effectiveness of the functions referred to below

Divisional Safety, Operational, Cyber and Environmental Policies and/or Procedures
which implement Group policies and/or procedures

Divisional Risk Registers & Management
which track divisional risks and develop mitigations

Divisional Budgets & Forecasting
which set divisional financial expectations and monitor delivery

Divisional Finance Teams
maintain the financial ledgers and prepare divisional accounts

Divisional Legal Teams
provide legal advice and assistance on divisional legal risks