THE AUDIT COMMITTEE REPORT

This is my first year as chair of the Audit Committee and I am grateful for the support I have received, which has allowed me to settle rapidly into the role. In 2018, the committee continued to oversee the quality and integrity of the Group's financial reporting, financial control and compliance processes, with areas of particular focus including the use of Alternative Performance Measures, compliance with laws and regulations and financial results presentation. The adoption of IFRS 9 and IFRS 15 in 2018, as well as the preparation for the implementation of IFRS 16 in 2019 and related disclosures, were also reviewed.

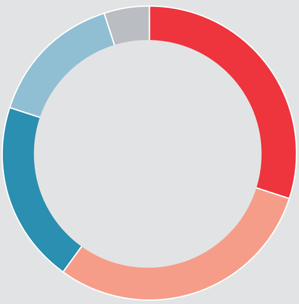
JOHN RAMSAY
Audit Committee Chairman

Committee membership during 2018

	Member since
John Ramsay (Chairman)	January 2018
John Daly	May 2015
Steve Mogford	May 2016
Paul Spence	January 2013

Regular attendees include the chief financial officer, the Group financial controller, the Group director of risk and internal audit, and representatives of the Group's external auditor.
There were four scheduled meetings held during the year ended 31 December 2018. Members' attendance is shown on page 81.

Main activities of the Audit Committee during the year (%)



Effectiveness of financial controls and risk management procedures	30%
Financial reporting	30%
Internal audit	20%
External audit and non-audit services	15%
Whistleblowing/fraud allegations	5%

Links to strategic priorities

Committee membership

The Audit Committee consists of four independent non-executive directors. The chief executive officer and chairman of the board also attend meetings when invited by the chairman. John Ramsay, who was appointed to the board and as chair of the Audit Committee with effect from 1 January 2018, is the member with recent relevant financial experience. Part of the induction process and on-going development for all directors seeks to ensure that committee members have knowledge relevant to the sector in which the company operates. Details of Mr Ramsay's further induction programme are set out on page 83. The board is satisfied that Mr Ramsay as well as the other members, taken together, bring significant and relevant experience gained at senior management level and that the committee's composition during the year met the requirements of both the Code and DTR7.1. Their skills and experience are set out on pages 74 and 75.

Responsibilities

The committee ensures that there is effective governance of the Group's financial reporting and internal controls to ensure the integrity of its financial statements and the adequacy of related disclosures, and assists the board in relation to its consideration of whether or not the annual report of the Group is fair, balanced and understandable. The committee also has oversight of the performance of both the internal audit function and the external auditor.

During the year, the terms of reference of the Audit Committee were reviewed. The terms are available at g4s.com/investors. The terms of reference will be reviewed again in 2019.

The committee has an annual agenda, which includes standing items that the committee considers regularly, as well as specific matters that require the committee's attention.

At the end of each meeting, a private session is held by the Audit Committee with representatives of the Group's external auditor or with the Group director of risk and internal audit, without members of the executive management team being present.

After each meeting, the chairman of the committee reports to the board on the matters which have been discussed.

SIGNIFICANT JUDGMENTS AND ISSUES CONSIDERED BY THE AUDIT COMMITTEE

The primary judgments and issues considered by the committee in respect of the 2018 financial statements, and how these were addressed, were:

ONEROUS CONTRACT PROVISIONS

Description

The Group delivers certain long-term outsourcing contracts that are complex in nature. Some of those contracts may evolve to become loss making, such that net unavoidable losses are expected over their life. In such a situation the net present value of estimated future losses needs to be determined in order to calculate an appropriate onerous contract provision. The identification and measurement of such provisions require significant judgment, given the extended time periods often involved and the number of variables that may impact on future losses.

In particular, judgment is required in assessing the future expected revenue and costs, including determining the expected impact of any profit improvement plans, the level of any related lifecycle funds and the estimated costs for the remaining life of the contract, and an appropriate discount rate to apply to future cash flows.

Details of the outcome of the assessment of contract provisions are set out in the Chief Financial Officer's Review on page 52.

Action taken

The committee discussed the process for the identification and assessment of onerous contracts and reviewed in respect of material low margin contracts as well as for each onerous contract, the critical assumptions made by management, and enquired about the robustness of the assumptions, the sensitivities to changes in the assumptions and the disclosure provided in relation to the key material judgments.

The committee also reviewed the disclosure provided in relation to these contracts.

Conclusion

The Audit Committee was satisfied that the level of provisions and the related disclosures as at 31 December 2018 were appropriate.

COMPLIANCE WITH FOREIGN OWNERSHIP RESTRICTIONS AND CONSOLIDATION OF UNDERTAKINGS

Description

In markets where foreign ownership restrictions (FORs) apply, the Group seeks to ensure that it complies with foreign ownership laws and regulations and relevant accounting standards (IFRS10). Professional advisors are typically retained to help establish and maintain contractual ownership structures, which comply with local laws and regulations relating to foreign ownership.

When restrictions apply to direct share ownership, the Group typically seeks to exercise influence or control through arrangements, including shareholder agreements.

Changes in FORs can limit the Group's ability to do business or invest in certain markets and may, in certain circumstances, result in a loss of management control.

Consolidation of any of these entities would be at risk if the Group's ability to enforce its rights of control were to be undermined by changes or different interpretations to FORs.

Action taken

The committee received reports in relation to FORs in a number of countries, which provided an update on relevant changes in law and regulations, their potential impact on the Group, and, where relevant, reviewed mitigation plans. During the year, the committee also reviewed the impact of changes in certain shareholder agreements and the accounting implications of these.

Conclusion

The committee was satisfied with the Group's processes and approach to foreign ownership and consolidation of undertakings.

This will remain an area of focus to ensure that the committee remains abreast of changes in laws, regulations and the relevant accounting standards.

ALTERNATIVE PERFORMANCE MEASURES

Description

The Group uses Adjusted PBITA and other alternative performance measures (APMs) for the purposes of consistent internal and external reporting, given that management views these measures as being more representative of the normal course of business and more comparable period to period. Adjusted PBITA excludes strategic restructuring costs, amortisation of acquisition-related intangible assets and specific and other separately disclosed items which the Group believes should be disclosed separately by virtue of their size, nature or incidence (see page 42 for further details). Judgment is required when defining those items to be disclosed separately and when applying the classification criteria to each period's results. Further details on separately disclosed items are set out in note 8.

Action taken

The Audit Committee reviewed guidance issued by the Financial Reporting Council (FRC) and the European Securities and Markets Authority (ESMA) together with management's response to the results of the FRC review of the 2016 Integrated Report and Accounts and enhanced disclosures that were included in the 2017 and 2018 Integrated Report and Accounts (pages 40 to 42) in relation to APMs. The committee assessed whether the Group's accounting policies were being applied consistently from year to year, and considered whether specific items were being identified in line with Group policies and that these items included both debits and credits as appropriate.

The committee also reviewed information from management to satisfy itself that changes in estimates related to items that were classified as specific items were treated consistently as specific items, for both increases and decreases.

Conclusion

The committee was satisfied that the Group's definition of APMs, and in particular in relation to specific and other separately disclosed items, had been applied correctly and that the designation of specific items was subject to objective and balanced criteria. The committee noted the enhanced disclosure and explanation on APMs and considered that these give a meaningful and balanced view of the operations of the Group.

GOODWILL IMPAIRMENT TESTING

Description

The total value of the Group's goodwill as at 31 December 2018 was £1.9bn (£1.9bn at 31 December 2017), a significant proportion of which was generated by the merger of the security services businesses of Group 4 Falck and Securicor in 2004, which was accounted for as an acquisition of Securicor by Group 4 Falck.

The Group tests goodwill for impairment on an annual basis or more frequently if there are indications that an impairment may have occurred. The impairment analysis consists of the estimation of the recoverable amount of goodwill supported by the Group's cash generating units. This analysis requires significant judgment, primarily in relation to the achievability of long-term business plans and future cash flows. Such achievability is dependent on circumstances both within and outside management's control, in relation to the discount rates adjusted to reflect risks specific to individual assets used, and in relation to the macro economic assumptions and related modelling assumptions underlying the valuation process.

For 2018, the Group reassessed cash generating units used to determine the level at which goodwill is assessed for impairment in light of the changes to the Group's segments at 1 January 2018 when Cash Solutions businesses were separated to form a new reporting segment. The result of the annual review of the carrying value of goodwill did not identify any impairment charge to goodwill as being required (see note 18 to the consolidated financial statements). The full methodology and results of the Group's impairment testing, including an analysis of the sensitivity of goodwill to the key assumptions, are provided in note 18.

Action taken

The Audit Committee reviewed the methodology for the reassessment of cash generating units as well as the methodology for and results of the impairment tests prepared by management.

The Audit Committee reviewed the assumptions used in relation to long-term growth, the resulting headroom and the sensitivities applied by management. In addition, these results were considered against alternative valuation bases such as reference to disposal values, less costs to sell, for similar assets in similar locations, both within the Group and external to the Group.

Finally, the Audit Committee considered the adequacy of the disclosures provided, particularly in respect of cash generating units where changes in key assumptions could give rise to an impairment.

Conclusion

The committee was satisfied with the carrying value of goodwill and related disclosures as at 31 December 2018.

TAXATION

Description

The Group operates in around 90 countries and is therefore subject to numerous reviews by individual tax authorities in the ordinary course of business. In some countries, tax legislation is not consistently applied and under some complex contractual structures, the responsibility for tax arising is not always clear. Judgments and estimates are required to determine the appropriate level of tax provisions and any required disclosure around contingent tax liabilities at each period end.

Provisions for tax liabilities are established for existing matters under dispute with local tax authorities, as well as for matters which it is considered may be disputed by them, where it is probable that a future liability will arise. In some instances, tax reviews may result in claims being raised by tax authorities. Any claims are handled by the local legal entity in the first instance. More complex cases are reviewed by the Group tax function and provisions are made, based on the best estimate of the likely outcome.

The Group recognises deferred tax assets in respect of temporary timing differences, mainly in relation to pension arrangements, fixed assets and carried forward losses. At 31 December 2018, total deferred tax assets were £248m (2017: £242m). Recognising such assets requires an assessment of their likely recovery through utilisation, which includes an assessment of the taxable profits expected to be made in each of the relevant jurisdictions in the future. Deferred tax assets can be affected by changes in legislation and in tax rates.

Action taken

The Audit Committee reviewed the Group's tax strategy, including the tax report and tax risk management processes, and the board approved the tax policy, which complies with the UK Confederation of British Industry's seven tax principles.

The committee also reviewed information prepared by management in relation to existing or potential tax exposures, the adequacy of the provisions recorded, their treatment and disclosure in the financial statements and emerging matters arising from the OECD's Base Erosion and Profit Shifting framework.

The committee reviewed information prepared by management supporting the recoverability of deferred tax assets, considered the period of time under which these assets would be recovered and made enquiries of the external auditor on the appropriateness of the Group's tax position.

Conclusion

The committee was satisfied with the Group's approach to tax, with the assessment of recoverability of deferred tax assets and with the accounting treatment and disclosure in respect of tax exposures.

LAWS AND REGULATIONS

Description

The Group operates in many jurisdictions globally, with complex and diverse regulatory frameworks. As a result, the Group faces many associated risks, including litigation including class actions; bribery and corruption; obtaining and retaining operating licences; complying with local tax regulations; changes to and application of employment and employee remuneration legislation; complying with human rights legislation; and new or changed restrictions on foreign ownership. Furthermore, the Group may face new or changing regulations which may require modification of its processes and staff training. Not being compliant with applicable laws and regulations can have far reaching consequences, including higher costs from claims and litigation; inability to operate in certain jurisdictions; loss of management control; and damage to the Group's reputation.

Action taken

During the year the committee received regular updates on significant areas of exposure to claims and areas where labour laws and regulations are complex and there is therefore an inherent risk to the judgment made when determining how to ensure compliance with those laws and regulations. In light of the quantum of the California class action settlement, a review of on-going labour litigation across the Group was carried out and the level of provisioning required was confirmed with management.

Conclusion

The committee was satisfied that the provisions booked at 31 December 2018 were appropriate. The committee was satisfied that the enhanced disclosure around the judgments made in relation to contingent liabilities was clear and appropriate.

RISK OF ACCOUNTING ERRORS AND MANAGEMENT OVERRIDE OF INTERNAL CONTROLS

Description

The Group operates in around 90 countries and has around 600 legal entities, with a significant number of local financial systems and processes. This leads to an inherently diverse set of processes and controls that rely on local capabilities for implementation and maintenance of control. As set out on page 66, the Group has adopted a three-lines-of-defence model to control and manage risks across the Group.

Over the course of the last five years the Group has made significant investment in strengthening capability in finance, internal audit and risk, and has introduced additional internal controls and enhanced Group oversight to mitigate these risks. These include monthly reviews of the quality of earnings, a comprehensive internal audit plan and a regular cycle of reviews of local business unit or country balance sheets and controls.

Action taken

The committee oversaw the progress made in embedding the Group's Minimum Financial Controls and received regular updates on the overall control environment of the Group, including results of internal audits, training and up-skilling of capabilities across the Group, as well as regular reports from the external auditor and the Group's whistleblowing process.

The committee also considered progress made in reducing reliance on manual controls, by developing and integrating financial and operational systems across the Group.

Conclusion

The committee acknowledged the progress made in relation to the strengthening of controls and the plans in place to reduce the number of systems and reliance on manual controls across the Group, but noted that, although good progress has been made to date, significant work remains to be done.

Viability statement

At the February 2019 meeting, the committee reviewed a paper prepared by management which examined the longer-term solvency and viability of the Group. The committee tested the underlying assumptions and analysis performed by management, reviewed assurance work carried out and considered the appropriateness of the timeframe of the assessment. The committee also considered the work being performed in relation to the review of separation options for the global cash division and acknowledged that any decisions that may be made during 2019 as a result of this review might be expected to lead to a stronger Group.
The committee was satisfied that the three-year period covered by the viability statement remains appropriate in that it aligns with the Group's regular business planning period, over which management has a reasonable level of confidence in its projections reflecting the life cycle of the majority of the Group's contracts, and takes account of the limited visibility on material bidding opportunities in the pipeline beyond that period. The committee also reviewed and challenged the outcome of the stress testing of projections by management.

The committee recommended to the board that the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of the assessment, as set out on page 89.

Fair, balanced and understandable

One of the key compliance requirements in respect of a group's financial statements is for the annual report, taken as a whole, to be fair, balanced and understandable. Guidelines on APMs were issued by the ESMA and have been applicable since July 2016. In addition, the FRC issued a "Frequently Asked Questions" guidance document and published the results of its thematic review on this matter in November 2017. Attention was also paid to guidance on disclosure of judgments and estimates and other key areas of interest set out in the FRC's Annual review of corporate governance and reporting 2017/2018 published in October 2018. The committee considered each of the above in assessing whether the Group's annual report was fair, balanced and understandable.

The committee reviewed a paper setting out the approach taken by management in the preparation of the annual report to ensure it met the requirements of the FRC's Code and the ESMA guidance, including the reasons for and clear explanation of the non-GAAP measures used by the Group in reporting its results for the year. The paper described the process and procedures followed and detailed the steps taken in each of the sections of the annual report to ensure that the information presented was complete and accurate. This paper also described the review processes carried out internally to ensure that the annual report is fair, balanced and understandable. In addition, an external verification exercise was carried out to confirm that the information contained in the annual report is supported either by factual evidence, or by confirmation from management where such information is a statement of belief or intent.

The committee was satisfied with the work performed and advised the board that the annual report, taken as a whole, presents a fair, balanced and understandable view of the business and its performance for the year under review.

Internal control

Since 2013, the Group has had a heightened focus on improving its systems of internal control and risk management for financial reporting. The main features of these control systems include clearly defined reporting lines and authorisation procedures, a comprehensive budgeting and monthly reporting system, written policies and procedures and the use of a single global consolidation system for internal management reporting, budgeting and planning as well as for external reporting.

The system is designed to ensure the integrity of financial reporting and the committee's responsibility is to ensure that these internal controls remain effective. The committee does this primarily through receiving reports from management, from the internal audit function and from the external auditor.

The committee received an update on initiatives being implemented by the Group to continue its progress in strengthening internal controls and reviewed progress made. During 2018 Group Internal Audit followed a targeted audit plan for those areas where control issues had been identified.

Further details on internal controls are set out on page 66. The Audit Committee confirmed to the board that it is satisfied that progress continues to be made in improving the Group's risk management and internal control processes and procedures and that these are appropriate and effective. However, strengthening of the internal control environment remains a key area of focus for the Group.

As such, in January 2019 the Group reviewed and relaunched its financial controls. The new Group Financial Controls are a more comprehensive suite of controls that are expected to provide a higher degree of transparency to management, enabling a more effective control environment and decision making.

Internal audit

During 2018, the internal audit function continued to provide support and guidance to business units to improve awareness of and compliance with Minimum Financial Controls.

In addition internal audit also assessed the effectiveness of a broader set of mandated controls including HR core standards on screening, health and safety, driver and firearms controls, payroll and IT. A risk-based approach was used to determine coverage for HR core standards and human rights. The goal remains to focus local management on the most material control issues specific to their local environment.

The Group finance function and regional audit committees also provided support to assist in driving improvements where appropriate.

In 2019, internal audits will continue to test the operational effectiveness of the Group's standards and controls. This will include assessing compliance with the Group Financial Controls, which were relaunched in January. Precise coverage in each country will continue to be determined through risk assessment.

External audit

Following an audit tender process during 2014 PricewaterhouseCoopers LLP (PwC) was appointed as the Group's new external auditor for the 2015 financial year. PwC was subsequently reappointed at the 2018 AGM to hold office until the next AGM. Richard Hughes has been lead audit partner since the beginning of 2015.

During the year, the committee reviewed PwC's Group audit plan including the scope to be undertaken as well as their reports on external audit findings, with particular focus on the areas set out above. The committee had private sessions with the external auditor both during the year and at the end of a number of Audit Committee meetings, and approved the fee for the external audit. The committee also considered and approved the representation letter to be issued to the auditor.

In addition, PwC updated the committee on current trends in the auditing market, including the Competition and Markets Authority's market study of the audit sector and the Kingman review of the FRC.

Non-audit services

To ensure that the independence of the external audit is not compromised, the committee has a policy in place covering the non-audit services that can be provided by the external auditor, the relevant approval process for certain services, and detailing those services which the auditor is prohibited from providing.

In essence, the external auditor is prohibited from providing services that could create a conflict of interest, result in the audit firm auditing its own work, or result in the performance of management functions. Examples of non-permitted services are actuarial services, book-keeping services, internal audit services and legal services.

The committee has pre-approved certain services which can be provided by the auditor subject to specified fee limits, above which further approval is required. All other services would require prior approval by the committee. The Audit Committee reviewed its policy on the provision of non-audit services by the external auditor in 2018 and concluded that no changes needed to be made. The committee will monitor any future changes which may be required in light of the results of the on-going audit sector reviews.

Details of the fees paid for audit services, audit related services and non-audit services can be found in note 10 to the consolidated financial statements.

Effectiveness of the external auditor

A combination of formal and informal processes is used in the assessment of the effectiveness of the external audit process.

A formal questionnaire is completed at the end of the audit by members of the Audit Committee, the Group Finance department and the finance directors of significant operations across the Group. The results of those questionnaires are reviewed by the Audit Committee. The assessment of the external audit for 2018 concluded that it remained effective and that the external auditor is independent. The auditor, PwC, has written to the Audit Committee confirming that, in its opinion, it was independent for the period through to 12 March 2019.

Regulators and our financial report

As previously reported, in 2017 the Group received a letter from the FRC confirming that the Annual Report for the year ended 31 December 2016 had been subject to a review by its Conduct Committee, which is responsible for reviewing and investigating the annual accounts, directors' and strategic reports of UK public companies for compliance with relevant reporting requirements and with a view to stimulating improvements in the quality of corporate reporting. Such reviews are based on the annual report and accounts and are conducted by staff of the Conduct Committee who have an understanding of the relevant legal and accounting framework but do not benefit from detailed knowledge of the business or an understanding of the underlying transactions entered into.

As a result of the correspondence with the FRC as part of its review, changes were made in the 2017 Integrated Report and Accounts, among other things, to improve reporting on Alternative Performance Measures and the commentary on IFRS measures in the Strategic Report. These changes have been maintained and, where possible enhanced, in the 2018 Integrated Report and Accounts. Enhanced disclosure and explanations can be found on pages 40 to 42. Subsequent to the issue of the 2017 Integrated Report and Accounts, the FRC confirmed that their enquiries into the 2016 Integrated Report and Accounts were closed.

CMA Order Compliance

The G4S group audit was put out to tender in 2014, following which PwC was appointed with effect from 2015.

The committee confirms that the company has complied with the Audit Services for Large Companies (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Committee performance

Again this year, the assessment of the committee's performance, conducted with assistance from Lintstock, concluded that the performance of the committee was rated highly overall, in particular in assessing the system of internal controls as well as in reviewing and assessing the work of the external auditors. The committee's oversight of the Group's whistleblowing arrangements was also positively rated.

In addition the good relationship and communication between the Audit Committee and key individuals in the company, such as the chief financial officer and the Group financial controller was commended again in 2018.

In 2019, the committee will continue to focus on the progress of Group Financial Controls and the quality of the Group's financial reporting.

JOHN RAMSAY
Audit Committee Chairman