



Mark Butcher

Chairman of Audit Committee

Committee membership

The members of the Audit Committee are shown below:

Committee membership	Number of meetings
Mark Butcher	4/4
Bindi Karia	4/4
John Pattullo	4/4
Nicola Rabson (joined the Committee on 9 November 2022)	2/4

The Code requires that at least one member of the Audit Committee (the Committee) should have recent and relevant financial experience. Currently, the Chairman of the Committee fulfils this requirement. All members of the Committee are expected to be and are financially literate. The Committee is composed of independent Non-Executive Directors with relevant experience and proficiency in line with the requirements of the Code and the Committee's terms of reference. Relevant information on the skills and experience of our Board members is outlined on pages 84 to 85.

Ensuring the integrity of the Group's financial reporting

Dear stakeholder,

On behalf of the Audit Committee (the Committee) and the Board, I am pleased to present the report of the Committee for the year ended 30 April 2023. The objective of this report is to provide an understanding of the work undertaken by the Committee during the year to ensure that the interests of the Company's stakeholders are protected through a robust system of internal controls, risk management and transparent financial reporting.

The report explains the role the Committee plays in the Group's governance framework by supporting the Board in the Board's assessment of the integrity of the Company's financial reporting and the adequacy and effectiveness of the Company's management of risk and internal controls.

The Board recognises the importance of risk management; therefore, the setting of risk appetite and the review of the risk register are carried out by the Board. The Committee continued to focus on its core areas of responsibility, namely protecting the interests of the Group, our shareholders and stakeholders through ensuring the integrity of the Group's financial information, audit quality and the effectiveness of internal controls throughout the year.

Role

The Committee's role, authority, responsibilities and scope are set out on pages 81 to 82 and in detail in its terms of reference which are available on the Governance section of our website: www.reddenorthgate.com

Meetings

The Committee is required to meet at least three times a year. Details of attendance at meetings held in the year ended 30 April 2023 are detailed in this report. Due to the cyclical nature of its agenda, which is linked to events in the Group's financial calendar, the Committee met four times during the year. The other Directors, together with the Group Head of Internal Audit and the external auditors, are commonly invited to attend all meetings.

Key focus

The Committee continues to support the risk management framework of the Group through regular review of internal controls and oversight of the work of internal audit.

The Committee reviewed management's assessment of the viability of the Group and the period over which viability should be assessed taking into consideration the impact of the economic environment, climate change and downside sensitivities, challenging those assumptions. The Committee is satisfied that the Group is viable, with further details provided within the viability statement found on pages 50 to 51.

Report of the Audit Committee *continued*

During the year, the Committee has given due consideration to the continuing uncertainties surrounding supply chain restrictions and the impact that these may have on residual values of used vehicles, the ageing of the fleet, and the cost of new vehicles. Such factors are important variables in the determination of appropriate depreciation rates for vehicles available for hire.

The Committee challenged and debated management's assessment of future residual values, and whilst acknowledging that this is a significant area of judgement, the Committee agreed with management's proposals with respect to the depreciation rates on the existing fleet and for new vehicle purchases.

As outlined in the prior year, depreciation rates have been reduced on a component of the fleet from May 2022 in response to the high residual values in the short to medium term period.

The approach towards assessing depreciation rates on new purchases has been consistently applied. This requires management to set depreciation rates based on their assessment of future residual anticipated at the point of disposal.

The Committee reviewed the judgements involved in management's assessments of potential indicators of impairment of assets and the recoverable amounts of each cash generating unit which contained indefinite lived assets. After due consideration, the Committee agreed with management's assessment of the recoverable amount of the NewLaw cash generating unit and agreed with the proposal to impair the value of certain assets of that business.

Following recent acquisitions, the Committee has reviewed management's assessments of the fair values of net assets acquired and also continues to support the embedding of

the Group's governance and internal control frameworks within those businesses.

During the year, the FRC reviewed the financial statements for the year ended 30 April 2022. The FRC's review is limited in scope with no detailed knowledge of our business and no reliance should be placed on the findings of their review. The review highlighted that the impairment of trade receivables should be disclosed as a separate line item on the income statement which has been adjusted in the accounts for year ended 30 April 2023, including a prior year adjustment.

The Committee reviewed and recommended the Board approve the Group's tax strategy and considers that this demonstrates the Group's commitment to tax transparency and its stated desire to pay the right amount of tax.

Activity

Since May 2022, the Committee has:

- reviewed the financial statements for the years ended 30 April 2022 and 2023 and the half yearly report issued in December 2022. As part of this review process, the Committee received reports from PwC;
- reviewed and agreed the scope of the audit work to be undertaken by PwC and agreed its fees;
- reviewed and confirmed endorsement of the Group's non-audit fee policy;
- reviewed the effectiveness of external audit and made a recommendation to the Board on the reappointment of PwC as the External Auditor.
- had discussions with the external audit partner in the absence of management;
- reviewed the effectiveness of the Group's system of internal controls;
- set the programme of internal audits;
- received regular reports from the Group Head of Internal Audit;

- reviewed and approved the Internal Audit Charter;
- reviewed the quality and effectiveness of Internal Audit;
- had discussions with the Group Head of Internal Audit in the absence of other management;
- reviewed the progress made by management in implementing the internal control improvements recommended by Group Internal Audit;
- reviewed the Group's corporate taxation arrangements and recommended that the Board approve the Group tax strategy;
- reviewed the Group's treasury arrangements and policies;
- reviewed the findings of the FRC's review of the Group's financial statements for the year ended 30 April 2022, and overseeing actions taken to address the recommendations proposed in that review;
- reviewed the Group's depreciation policy and depreciation rates adopted within this policy;
- reviewed a management paper considering classification of items as exceptional within the income statement;
- reviewed a management paper on the accounting considerations of the recoverability of contract assets within Redde;
- reviewed a management paper on the accounting considerations of impairment of assets;
- reviewed a management paper on the accounting judgements made with respect to the fair value assessment of acquisitions;
- reviewed and approved the Group's "Fair, Balanced and Understandable" statement;
- reviewed management's assessment of going concern and viability; and
- reviewed and approved the Committee's terms of reference, prior to making a recommendation to the Board.

Significant matters considered in relation to the financial statements

During the year the Committee reviewed the significant matters set out in this report in relation to the Group's financial statements for the year ended 30 April 2023. We discussed these issues at various stages with management during the financial year and during the preparation and approval of the financial statements.

Following review and consideration of the presentations and reports presented by management, we are satisfied that the financial statements appropriately address the critical judgements and key estimates, in respect of both the amounts reported and the disclosures made. We also reviewed these issues with the auditors during the audit planning process, the interim review and at the conclusion of the year end audit. We are satisfied that our conclusions in relation to these issues are in line with those drawn by the auditors.

Risk management

The Committee is responsible for overseeing the adequacy of internal controls and the work of Group Internal Audit.

The Board determines the extent and nature of the risks it is prepared to take in order to achieve the Group's strategic objectives. Further information on the Group's risk management processes can be found on pages 40 to 49.

Report of the Audit Committee *continued*

Internal financial controls

On an ongoing basis, the Audit Committee reviews the adequacy and effectiveness of the Group's system of internal financial controls, which are described briefly in the table on this page.

The Committee received detailed reports on the operation and effectiveness of the internal financial controls from members of the senior management team. The outcome of the external audit at year end and the half year review are considered in respect to our internal controls. The Committee also receives updates on the policies and procedures in place and how these are being communicated to and complied with by our staff.

Overview of internal financial controls

Governance framework	Our governance framework supports effective internal control through an approved schedule of matters reserved for decision by the Board and the Group Management Boards, supported by defined responsibilities, levels of authority and supporting committees.
Financial review and internal procedures	Comprehensive systems of financial reporting and forecasting which are conducted frequently and include both sensitivity and variance analysis. A budgeting exercise and strategic review is conducted annually. Sensitivity analyses are included in both the strategic review and the rolling forecasts.
Tax and Treasury procedures	<p>Taxation is a complex area and is subject to frequent external review. Regular oversight of tax governance is provided by the Committee, covering implementation of the Group's tax strategy, compliance, and all significant commercial transactions. We maintain an open relationship with HMRC and have a "low risk" tax status.</p> <p>The Treasury function ensures compliance with Group treasury policies set by the Board and reviewed by the Committee which cover liquidity risk, credit risk, interest rate risk, foreign exchange risk and capital management. Liquidity policy includes continual monitoring of the Group's debt facilities to ensure sufficient access to capital. All complex or large transactions are discussed in advance with the Board.</p>
Risk management	The Board regularly reviews the Group's risk register, the schedule of key controls and key risk indicators. The Board also assesses the impact of emerging risks to the Group. Our risk management procedures are robust and can be viewed on pages 40 to 49.
External verification	During the year, no significant deficiencies had been raised by PwC through the course of the annual audit nor through the work carried out by Group Internal Audit and overseen by the Committee.

Report of the Audit Committee *continued*

Significant financial judgements, key assumptions and estimates

Any key accounting issues or judgements made by management are monitored and discussed with the Committee throughout the year. The table below provides information on the key issues discussed with the Committee during the year and the judgements adopted.

Matter	Key consideration	Progress to date	Conclusion
Determining appropriate depreciation rates for vehicles available for hire	Ensuring that depreciation rates are set appropriately.	<p>The Committee reviewed trends of vehicle residual values on a regular basis. In addition, we reviewed papers prepared by management at each reporting date which included a quantitative and qualitative assessment of the current and forecast trends in the used vehicle market, management of group fleet and review of the Group's depreciation policy and accounting estimates against that backdrop.</p> <p>We challenged and debated the assumptions and judgements made and were content with managements assessment.</p>	We agreed with management's assessment of depreciation rates to be applied to the existing fleet and their proposal for depreciation rates on new vehicle purchases to be applied in FY2024.
Claims due from insurance companies and self-insuring organisations	Ensuring that the carrying value of insurance claims represents the best estimate of the net claim value to be recovered.	<p>At each reporting date the Committee reviewed papers prepared by management at each reporting date which included management's assessment of the expected net claim values at each reporting date.</p> <p>We challenged the underlying assumptions and significant areas of judgement and were satisfied with management's assessments.</p>	We concluded that the judgements made in determining net claim values as at 30 April 2023 were appropriate.
Impairment of assets	Ensuring that the recoverable amount of assets held on the balance sheet are in excess of carrying values.	<p>The Committee reviewed a paper prepared by management considering indicators of impairment of assets. The paper also outlined assumptions made in the calculation of the recoverable amount for each cash generating unit (CGU) which included indefinite lived assets.</p> <p>We challenged the assumptions made and were satisfied with management's assessments.</p>	<p>We agreed with managements assessment that assets held on the balance sheet are not impaired, with the exception of the NewLaw CGU.</p> <p>We reviewed management's calculation of the recoverable amount of the NewLaw CGU and agreed with the accounting impairment included within the financial statements.</p>
Financial statements and other information	Fair and balanced presentation of financial statements and other information including use of appropriate alternative performance measures.	<p>The Committee considered the presentation of the financial statements, including the presentation of reported results between underlying and statutory performance, as well as evaluating how financial results and alternative performance measures were used as part of the Strategic report.</p> <p>The Committee reviewed papers prepared by management at each reporting date which outlined management's judgement in assessing whether any items should be classified as exceptional items or otherwise excluded from underlying results to ensure that the judgements made were reasonable and were in line with stated policy.</p>	We concluded that the Annual Report and Accounts, taken as a whole, were fair, balanced and understandable, and that the usage of alternative performance measures was appropriate.

Report of the Audit Committee *continued*

External auditors

The Committee reviews and makes recommendations regarding the appointment of the external auditors. In making this recommendation, we consider auditor effectiveness and independence including consideration of non-audit fees and length of tenure of audit firm and lead partner.

The Committee confirmed compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, having last carried out a competitive tender and appointed PwC as Group auditors in 2015. Jonathan Greenaway had been the lead audit partner since the year ended 30 April 2022, following the rotation of the previous partner. The Company is required to have a mandatory audit tender after 10 years and, as the Audit Committee considers the relationship with the auditors to be working well and remains satisfied with their effectiveness and the quality of audit work, their geographical and professional capabilities, the Audit Committee does not currently anticipate that it will conduct an audit tender before it is required to do so in 2025. The Committee will continue to monitor this annually to ensure the timing for the audit re-tender remains appropriate, taking into account the effectiveness and independence of the auditors.

The Committee ensures that non-audit work may only be undertaken by the external auditor in limited circumstances. All non-audit services are subject to the Committee's prior approval. Non-audit services provided by our external auditors are subject to a cap equal to 70% of the average annual audit fee for the preceding three years.

Non-audit fees for services provided by PwC for the year amounted to £62,000 related to the review of the interim financial statements as required by regulation. As this work was required by legislation there were no non-audit services conducted for the purposes of comparison to the 70% cap included in the FRC's guidance.

The Committee reviewed the effectiveness and independence of the external auditors, both in terms of the engagement team and the firm as a whole. In order to perform this assessment, the following criteria are considered:

- the auditor's safeguards to independence including the independence letter which annually confirms their independence and compliance with the FRC Ethical Standard;
- the operation, and compliance with, the Group's policy on non-audit work being performed by the auditors;
- how the auditors identified risks to audit quality and how these were addressed, including the controls the auditors relied upon;
- the quality of the audit plan including identification of key risks, materiality assessment and scope of Group audit;
- how the auditors demonstrated professional scepticism and challenged management's assumptions where necessary; and
- the outcome of the FRC's inspection of PwC's audit quality.

In assessing how the auditors demonstrated professional scepticism and challenged management's assumptions, the Committee considered the depth of discussions held with the auditor, particularly in respect to challenging the Group's approach to its significant judgements and estimates. The Committee is satisfied with the level of challenge raised by the audit partner and the team during the year.

The Committee concluded that the audit process was operating effectively. Consequently, the Committee has recommended the reappointment of PwC as the Group's external auditor at the AGM in September 2023.

Group Internal Audit

In fulfilling its duty to monitor the effectiveness of the Internal Audit function, the Committee has:

- reviewed the adequacy of the resources of the Group Internal Audit department;
- ensured that the Group Head of Internal Audit has direct access to the Chairman of the Board and to all members of the Committee;
- conducted a one-to-one meeting with the Group Head of Internal Audit without management present; and
- approved the Group Internal Audit programme and reviewed quarterly reports by the Group Head of Internal Audit, ensuring the Committee was satisfied with the quality of these reports.

The Committee concluded that the Group internal audit process had been conducted effectively and that the quality of audit and reporting was rated highly.

Looking forward

In FY2024, the Committee will continue to support the Board as the business continues to grow organically and inorganically, embedding the Group's governance framework, financial reporting systems, risk management processes and internal controls.

Mark Butcher

Chairman of Audit Committee
5 July 2023