

Corporate governance continued



Accountability Audit Committee

Nick Bray
Chairman of the
Audit Committee



The Audit Committee provides an independent overview of the effectiveness of the internal financial control systems and financial reporting processes.

Dear Shareholder

I am pleased to present the 2018 Audit Committee report. This report describes the Committee's ongoing responsibilities and key tasks as well as its major activities in the period ended 31 March 2018.

Composition of the Committee

| Member | Date of appointment to Committee | Directors' attendance 2017/18 |
|----------------|----------------------------------|-------------------------------|
| Nick Bray | 21 July 2016 | 5(5) |
| Sabri Challah | 23 July 2015 | 5(5) |
| Maria da Cunha | 23 July 2015 | 3(5) |
| Andrew Stevens | 2 January 2013 | 5(5) |

Note
Figures in brackets denote the maximum number of meetings that could have been attended.

Activities during the period

During the period, the Audit Committee met on five occasions and dealt with the following matters:

- Group half year results
- Group preliminary announcement and annual results
- Principal judgemental accounting matters affecting the Group based on reports from management and the external auditors
- External audit plans and reports
- Risk and assurance plans and reports including:
 - Group risk profile
 - Internal audit plan
 - Internal audit reports
 - Follow up of internal audit recommendations
 - Annual review of the system of internal controls
 - Quality and security internal assurance reviews
 - Internal control self assessment review
 - HSE legal assurance and compliance audits
- Group disclosure and whistleblowing policy
- Review of controls concerning the management of capital expenditure proposals
- Going concern and viability assessment
- External auditor effectiveness, independence, and fees
- Review of the new regulatory requirements regarding external audit firm and audit partner rotation
- Audit Committee effectiveness

Principal responsibilities

- The appointment of the external auditors including the agreement of the terms of engagement at the start of each audit, the audit scope and the external audit fee
- Monitoring and reviewing the effectiveness of internal financial controls and internal control and risk management systems and the effectiveness of the internal audit function
- Reviewing the integrity of the interim and full year financial statements
- Reviewing significant financial reporting issues and judgements contained in the financial statements
- Reviewing and monitoring the external auditor's effectiveness, independence and objectivity including the nature and appropriateness of any non-audit fees
- Reviewing reports on the effectiveness of the Group's whistleblowing procedures and arrangements, details of which are set out on page 62
- Advising the Board on whether taken as a whole, the annual report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy

The terms of reference of the Audit Committee are available on the Group's website.

All members of the Committee are Independent Non-executive Directors. The Board is satisfied that the membership of the Audit Committee meets the requirement for relevant and recent financial experience.

I have continued with the practice of inviting the Chairman, Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, General Counsel and Company Secretary, Director of Audit, Risk and Assurance and the external and internal auditors to join meetings of the Committee. The Director of Audit, Risk and Assurance, who is the chief internal auditor, and external auditors each meet the Committee without Executive Directors or other employees being present.

Significant accounting matters

The Audit Committee is responsible for reviewing whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements in the preparation of the financial statements. In respect of the financial statements for the period ended 31 March 2018, the significant issues reviewed and how these issues were addressed is summarised below:

Revenue recognition in the Currency division

The Committee considered the Group's revenue recognition and contract accounting policies and procedures to ensure that they remained appropriate and that the Group's internal controls were operating effectively in this area. Feedback was also sought from the external auditors over the application of the revenue recognition policy including a specific review of shipments pre and post year end. Following a review of the varied sources of information received, the Committee concluded that the accounting treatments were reasonable and appropriate.

Post-retirement benefit obligations

The Committee received and considered reports from management and the external auditors in relation to the valuation of the defined benefit pension scheme and challenged the key actuarial assumptions used in calculating the scheme liabilities, especially in relation to discount rates, RPI and CPI inflation rates and mortality.

The Committee discussed the reasons for the decrease in the net pension deficit and was satisfied that the assumptions used were appropriate and were supported by independent actuarial specialists. Details of the key assumptions used are set out in note 24.

Valuation of inventory in Currency

The Committee reviewed the Group's policies and procedures over the valuation and recoverability of inventory in Currency (£24.7m). The Committee received confirmation that the valuation principles had been consistently applied and noted that the majority of inventory items were made to order rather than held for generic stock and hence the recoverability risk was low. Accordingly, the Committee concluded that the accounting treatments were reasonable and appropriate.

Estimation of accruals and provisions

The Group holds a number of provisions relating to warranties including present obligations for defective products and known claims as well as anticipated claims that had not been reported at the balance sheet date. The Committee reviewed and discussed reports from management and the external auditors concerning the significant provisions held for such matters including any provisions with notable movements. The Committee considered the background to all material accruals and provisions and challenged management over the judgements applied in determining the value of provisions required. The Committee enquired of management and the external auditors as to the existence of other matters potentially requiring a provision to be made. The Committee concluded that it was satisfied with the value of accruals and provisions carried.

Classification of exceptional items

As part of the Committee's deliberations over whether the annual report and accounts, taken as a whole, is fair, balanced and understandable, the Committee also considered the amounts disclosed as exceptional items. The nature of the items classified as operating exceptional items during the period is described in note 2 and 4.

In particular, the Committee reviewed the accounting treatment of the £79.5m net gain from the re-measurement of pension liabilities following the decision by the Trustees of the scheme to use CPI as the indexation measure from 1 April 2018.

The Committee considered the accounting treatment and disclosure of these items in the financial statements including seeking the views of the external auditors. On the basis of this review, the Committee concluded that the accounting treatment and disclosures in relation to these items were appropriate.

Disposal accounting following the disposal of Portals De La Rue Limited

The Committee reviewed the disposal accounting following the disposal of Portals De La Rue Limited. The Committee reviewed the:

- assessment of discontinued operations treatment
- critical accounting estimates used in the estimate of potential recompense of consideration
- accounting treatment for the "disposal group" under IFRS 5
- appropriate accounting treatment for the remaining interest De La Rue has in the disposal group

Following presentations by management and discussions with the external auditors, the Committee was satisfied with the disclosures relating to the disposal of Portals De La Rue Limited.

Independence and objectivity of external auditors

The Committee ensures that the external auditors (Ernst & Young LLP) remain independent of the Group. The Audit Committee has a detailed policy covering:

- Choosing the statutory auditors and approving the audit fee
- Commissioning non-audit work
- Defining circumstances in which it is appropriate or inappropriate for incumbent auditors to be allowed to provide or be prohibited from providing non-audit work
- De La Rue's procedures for procuring non-audit services from external sources, which specifically prohibits Ernst & Young LLP from undertaking certain types of service (including but not limited to services where it would audit its own work, where it would act in an advocacy role for the Group or where it would participate in activities normally undertaken by management)

Corporate governance continued



Accountability Audit Committee continued



The Audit Committee believes that this annual report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

However, it may be cost-effective for Ernst & Young LLP to perform certain non-audit services, in particular where the skills and experience required make Ernst & Young LLP the most suitable supplier. Certain categories of non-audit services, including corporation tax compliance and due diligence services must be subject to competitive tender unless it is justifiable in the circumstances not to do so. Areas which would not normally be acceptable non-audit services but in exceptional circumstances may be considered appropriate, such as litigation and compliance services, require my prior approval. The selection criteria include detailed proposals, timescales, local resource, cost and the safeguards put in place by Ernst & Young LLP to avoid conflicts of interest or loss of independence. In addition, the Group's policy is for any individual assignment to be undertaken by Ernst & Young LLP where the fee is likely to be in excess of £50,000 to be approved by me prior to commencement of work. During 2017/18 the amount of non-audit fees paid to Ernst & Young LLP was £0.3m.

The safeguards Ernst & Young LLP put in place avoid compromising their objectivity and independence. They provide a written report to the Audit Committee on how they comply with professional and regulatory requirements and best practice designed to ensure their independence. Key members of the Ernst & Young LLP audit team rotate and the firm ensures, where appropriate, that confidentiality is maintained between different parts of the firm providing services to De La Rue.

The Audit Committee places great emphasis on the objectivity of the Company's auditors, Ernst & Young LLP, in reporting to shareholders.

The Ernst & Young LLP audit partner is present at Audit Committee meetings to ensure communication of matters relating to the audit. The Audit Committee has discussions with the auditors, without management being present, on the adequacy of controls and on judgemental areas and receives and reviews the auditors' highlights reports and management letters, which are one of the main outputs from the external audit.

The scope and key focus of the forthcoming year's audit is discussed with, and approved by, the Audit Committee.

Appointment of auditors

The Audit Committee assesses annually the qualification, expertise, resources and independence of the external auditors and the effectiveness of the audit process. The Audit Committee's assessment is performed by an audit satisfaction questionnaire completed by the Chairman, relevant senior management and Audit Committee members.

Following the conclusion of the tender process reported in last year's Annual Report and Accounts, the Board confirmed its intention to propose to shareholders, for approval at the 2017 AGM, to appoint Ernst & Young LLP as the Group's auditor. Ernst & Young LLP were subsequently appointed.

Internal control and risk management

As noted above, the Committee is responsible for reviewing, on behalf of the Board, the effectiveness of the Group's internal financial controls and the assurance procedures relating to the Group's risk management systems. These controls and procedures are designed to manage, but not eliminate, the risk of failure of the Group to meet its business objectives and, as such, provide reasonable but not absolute assurance against material misstatement or loss. The key elements of the Group's risk management framework and procedures are set out on pages 36 to 41. The Committee reviews these topics at each meeting and considers that none of the areas identified for enhancement during the year constituted a significant failing or weakness for the Group.

Internal audit

Assurance over the design and operation of internal controls across the Group is provided through a combination of techniques. The Board, through the Audit Committee, monitors the effectiveness of internal control systems through reports received from the internal audit function during the period. The internal audit function has been outsourced since 2009. PricewaterhouseCoopers LLP have performed this role since the start of 2013/14.

Internal audit continued to ensure that their efforts were better aligned to the operational risks that the Group faces while maintaining an emphasis on reviewing the adequacy and effectiveness of general finance and IT controls across the Group on a cyclical basis. In addition to internal audit work, there is a system of self assessment internal control reviews by which management are required to detail and certify that controls are in operation to ensure the control environment in their business areas is appropriate. Actions agreed are followed up by senior management to ensure that satisfactory control is maintained. The internal audit plan is set and reviewed by the Audit Committee. Additionally, the Audit Committee reviews reports from the external auditors on internal control matters noted as part of their audit work.

The 2018/19 Internal Audit plan was approved by the Committee in April 2018.

Fair, balanced and understandable view

At its May 2018 meeting, the Committee reviewed the content of this annual report and accounts and advised the Board that, in its view, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

In making its recommendation to the Board the Committee continued its robust existing governance arrangements by:

- Comprehensive Group and subsidiary accounts process, with written confirmations provided by business unit senior management teams on the health of the financial control environment
- Reviews of the annual report undertaken at different levels of the Group and by the senior management team that aim to ensure consistency and overall balance
- External audit review
- Clear guidance and instruction of the requirement provided to contributors
- Written confirmation that information provided by executive management has been done on a fair and balanced basis
- Additional reviews by the Audit Committee Chairman of the draft annual report in advance of the final sign-off in the context of the Code provision

Final sign-off is provided by the Board, on the recommendation of the Committee.

Nick Bray

Chairman of the Audit Committee
30 May 2018