**Audit Rating: Adequate**

1. **Executive Summary**

## Introduction

This audit is carried out as part of the Audit Plan to December 2012 as agreed by the Audit Committee. It commenced on 6th August 2012 and took one week. The work undertaken focused on financial and general management controls for both G4S Manned Security (RO001) and G4S Cash Solutions (RO002). Audit scope covered a follow-up on prior audit dated November 2011. This audit also included Bribery Act review, to ensure business has adopted and is applying the Group’s policies supporting compliance with the UK Bribery Act 2010, as described in the Bribery Act Guidance Manual. The exchange rate used in this report is £1: RON 5.6

## Conclusion

Romania Business is 100% owned by G4S Holding, monthly turnover RON 19,200k (£3.4m) with around 5,800 employees. The business has made a slow recovery after losing significant part of the Romanian post office contract (CNPR) in 2010, with major restructuring and downsizing in manpower.

There has been progress in addressing prior issues, an action plan exists, however there have been delays in implementation due to budget and operations limitation. The 2011 audit report identified four fundamental and four significant issues and was rated as Adequate. This report identifies two new fundamental and six new significant issues, this is due to additional work on BEP, payroll, accounts receivable & payables.

**Fundamental findings that were raised in prior audits and are still unresolved**

* Under provision for Supplier Disputes.
* Software Licences (use of unlicensed Microsoft licences).

**Significant findings which have been newly identified in 2012**

* Supplier Selection & Evaluation process.
* Communication to customers and Credit Control Policy not enforced.
* Outsourcing of the Payroll Function requires monitoring.
* Lack of a formal development plan for managers and leaders – Succession planning.
* Bribery Act & BEP compliance.
* Lack of ERP Exception Reports.
* Incomplete DRP & off-site testing.

**Summarised below are non-rated issues**:

Following discussion with management, issues noted deemed not appropriate to be rated:

* Credit Notes do not include reason why it was issued.
* Unused space within company Premises (head office).
* Transfer pricing adjustments file for local tax authorities.
* CNPR Bad Debt Provision for £12.7m has not been provided on Group Finance instruction.

A total of 2 A (Fundamental) and 7 B (Significant) findings have been raised. Full details on all findings are set out in Section 2.

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| **Executive Summary:** | **Full Report:** |  |  |
| Trevor Dighton | Nigel Stancliffe | Stephane Bouvier | John Freebody |
| Willem van de Ven | Dominique Hurnaus | Andreas Paterakis | Panagiotis Dermitzoglou |
| Len Gateson | Adrian Baicusi | Florin Alexandrescu | KPMG |

|  |  |  |
| --- | --- | --- |
| **Audit Team:** | **Audit Supervision & Review:** | **Management Comments:** |
| Chase Rigatta (lead)Andreas KoutoupisChara Mavrantoni | Phil Summerton | Florin Alexandrescu |

1. **Detailed Findings**

“Recommendations” are drafted by Group Internal Audit based on their observations and enquiries. It is, however, management’s responsibility to assess the control environment operating in their business and to ensure that the proposed actions fully address all risks including, but not limited to, those specifically identified by GIA.

| **No. &****Rating** | **Audit Findings** | **Recommendations** | **Management Response** |
| --- | --- | --- | --- |
|  | **Purchasing & Accounts Payable Issues** |  |  |
| **1****A** | **Underprovided for Supplier Dispute**G4S Romania has still suspended business with a number of suppliers such as Mecatronica, Innovation Investment SRL, Damatarc Construct, Rom Capital Invest SA, etc therefore the relevant invoices are not paid. However, no provision has been made for unpaid invoices and potential legal charges and / or penalties for early termination of the contracts. G4S Romania has not calculated the value of potential provisioning regarding the above supplier disputes, due to various reasons, I.e. services were not fully provided, quality issues, contracts terms or ex-MD.Total outstanding is RON 9m (GBP 1.6m) which include RON 1.3m (GBP 230k) over 180 days, which has not been provided for. | Adequate provisions made for outstanding balance to vendors. Management must review the likely cost of legal settlement and ensure that the relevant provision is included in the accounts. Seek Regional advice and support for resolving these disputes where they are with suppliers related to the ex-MD. | **Action / comment:** Total outstanding liabilities for these suppliers as at 31 Aug 2012 are 2.5 millions RON. Rom Capital Invest SA - was paid in August 2012. Damatarc Construct - there are not legal claims from this supplier, this is an inactive entity - management estimates that no payment will be done and no provisions are necessary. Mecatronica - the legal reconciliation procedure which already took place established that the supplier should prove that the services have been provided - G4S management estimates that no payments will be done and no provisions are necessary. Innovation Investment - the trial has been won by the supplier, provisions in amount of minimum 44 kRON will be made in 2012 for penalties & legal expenses.**Owner: CFO - Florin Alexandrescu****Resolution date: 31.12.2012** |
| **2****B** | **Supplier Selection & Evaluation process**Currently, supplier selection and evaluation process is not always performed through a formal process. Specifically, no formal approved vendor list has been developed to date. Company departments may evaluate and select suppliers on an ad hoc basis and involve in certain cases supervisory authorities such as CFO. The adequacy of the process for selection and evaluation of suppliers is not always evident.Supplier selection policy aims to guarantee that the best product is acquired, with the best price (both initial purchase and subsequent maintenance, bulk discounts etc) and also that benefits such as guaranteed supplier stock levels are contracted.**Decentralized Procurement:**At present company departments are able to place orders based on budgetary constraints without consent from a centralised procurement function. This results in a lack of control of supplier approval and the loss of advantages from bulk purchasing.G4S businesses that have conducted a comprehensive review of their purchasing and centralised this function/suppliers have won considerable annual cash savings.Moreover, no centralized unit or individual are held responsible for monitoring open purchase orders which may result in weakened controls over purchasing. | Supplier selection and evaluation process is formalized through the development of a formal and approved vendor list. All major suppliers are included in the vendor list after careful selection and evaluation based on both quantitative and qualitative criteriaGIA understand that in the short term it will not be possible to centralise the procurement process. However there are controls such as strict application of the procurement policy and assigning procurement responsibilities that will enable the company to make more effective procurement decisions.. | **Action / comment:** The process will be properly formalized.**Owner: CFO - Florin Alexandrescu****Resolution date: 31.12.2012****Action / comment:** Only the small purchases (less than RON 5000) can be decided in a decentralized manner, but based on budgetary constraints of each department. We’ll review all these purchases and all the items purchased in order to asses if a bulk purchasing would be possible.**Owner: CFO - Florin Alexandrescu****Resolution date: 31 Dec 2012** |
|  | **Revenue & Accounts Receivable Issues** |  |  |
| **3****B** | **Communication to / from customers**Currently communication to / from customers is not evident as there is no CRM database in place. The establishment of CRM database will strengthen the monitoring over customers communication and will enhance the improved monitoring of customer complaints. **Outstanding Receivables**There is no systematic communication to customers with outstanding receivables. No formal procedures exist over the communication to customers with outstanding receivables, also no relevant reports are periodically issued and reviewed.**Credit Control Policy**Although a credit policy has been drafted and adhered to it is not evident that G4S Romania performs a systematic customer creditworthiness checks over new clients. No formal vetting for any client. No credit checks performed on new customers won.Moreover, the company currently utilizes only Credit days to control outstanding balances. No credit limits set in monetary values for customers.**Interest Clause in contracts**Although, an interest clause in case of delayed payments is applied in all customer contracts we noted that the business does not exercise it in such cases. | The business is in process for establishing a Customer Relationship Management (CRM) database where all types of communication will be registered, as well as the relevant follow up actions (if any). Thus the customer complaints handling will be evident and customer satisfaction rate will be improved.Outstanding receivables are formally reviewed and monitored periodically. Relevant formal policies and procedures are developed and monitored through relevant communication and reports.The business exercises systematic customer creditworthiness checks over all potential new clients. Update & Enforce Credit PolicyThe company considers the utilization of credit limits as a means to control outstanding balances and strengthen the credit process.As this is a compliance issue the business should exercise all relevant contractual clauses in all cases. | **Action / comment:** Cash: For present time all complaints are registered, and also all contract details and addendum are kept in some dedicated files. For sure the CRM will be an important tool, with great benefits. We are already part of the CRM Group Programme, providing all requested information.Regarding report process, it is an ongoing project for operational reports. This issue will be resolved after implementing a new IT site.Secure: We will issue a request to IT department for a CRM that allows complaints registration.**Owner:** **Customer Director Cash – Gino Laios****Customer Director Secure – Valentin Badalan****Resolution date Cash: ongoing, depending on Group schedule****Resolution date Secure: 20 Sep 2012****Action / comment:** Cash: the procedure will be reviewed and implemented respecting all recommendationsSecure: Customer Department will issue a procedure applicable in case of customers with outstanding receivables.**Owner:** **Customer Director Cash – Gino Laios****Customer Director Secure – Valentin Badalan****Resolution date Cash: 30 Nov 2012****Resolution date Secure: 20 Sep 2012****Action / comment:** Cash: the procedure will be reviewed and implemented respecting all recommendationsSecure: A clear procedure will be put in place starting 1st January 2013 after we analyse the impact of cost if using specialized companies for vetting any client.**Owner:** **Customer Director Cash – Gino Laios****Customer Director Secure – Valentin Badalan****Resolution date Cash: 30 Nov 2012****Resolution date Secure: 20 Sep 2012****Action / comment:** Cash: the procedure will be reviewed and implemented respecting all recommendationsSecure: Customer department will issue a procedure describing when, to whom and the approval grid.**Owner:** **Customer Director Cash – Gino Laios****Customer Director Secure – Valentin Badalan****Resolution date Cash: 30 Nov 2012****Resolution date Secure: 20 Sep 2012** |
|  | **HR Issues** |  |  |
| **4****B** | **Lack of a formal development plan for managers and leaders – Succession planning**No structured and agreed development plan exists for managers and leaders. The absence of succession planning may lead to inefficiencies in case of key employee termination of employment.**Diversity and Inclusion**No KPIs have been introduced to support implementation of the local diversity plan. According to the HR Manager minimum acceptable standards are followed regarding diversity and inclusion | A formal comprehensive succession plan should be developed and applied consistently.A relevant development plan should be developed for managers and leaders.Diversity and Inclusion policy should be formally introduced and implemented, as well as relevant KPIs that will strengthen equal opportunities. | **Action / comment:** A formal succession plan will be developed and applied for top and middle management in both lines of business, based on a job analysis that will take place starting the 1st of October 2012Diversity and Inclusion policy will be formally introduced and implemented, as well as relevant KPIs that will strengthen equal opportunities.**Owner: HR Manager – Raluca Tataru****Resolution date: 01.03.2013** |
| **5****B** | **Bribery Act & BEP**There is a local code of conduct signed by all employees (direct & indirect), Also the full version BEP is in the process of being signed by indirect staff and management. The company has local hotline set up However local hotline and Group safe2say number is not promoted to all employees.Vendors / suppliers have not signed a separate document for G4S code of conduct. Code of Conduct, clauses is not  included into supplier contracts  | Group BEP to be signed by all indirect employees and management.Publicise & promote local hotline and the Group Confidential Reporting hotline (Safe2Say) in-line with Group policy and ensure that all employees are made aware.Supplier Code of Conduct, clauses must be embedded into all non-Government supplier contracts going forward. | **Action / comment:** The Group BEP has been signed by 75 employees from top and middle management. All the indirect employees will sign BEP by the end of October 2012**Action / comment:** The HR Department will start the actions to publicise and promote local hotline and the Group Confidential Reporting hotline (Safe2Say) in-line with Group policy and ensure that all employees are made aware.**Owner: HR Manager – Raluca Tataru****Resolution date: 01.12.2012****Action / comment:** All major suppliers will be asked to adhere to G4S code of conduct.**Owner: CFO - Florin Alexandrescu****Resolution date: 31 Dec 2012** |
|  | **Payroll Issues** |  |  |
| **6****B** | **Outsourcing of the Payroll Function** Although the company has outsourced the payroll function, no Right to Audit clause has been applied to the existing contract. This omission weakens monitoring over payroll preparation by third party. | The business examines the possibility to add such clause in the existing contract or before renewal. | **Action / comment:** An addendum with such clause will be signed with the supplier.**Owner: CFO - Florin Alexandrescu****Resolution date: 30 Nov 2012** |
|  | **IT Issues** |  |  |
| **7****A** | **Software Licences**It was identified from discussions on software licences that the number of users currently exceeds the number of Microsoft licences available, by around 15% (70 users more than the licensed 500). | Management reviews the users of Microsoft licences to ensure the list of users reflects the needs of the business and that there are no dormant accounts. Implementation of action plan, to increase Microsoft license users, full back-up for VPN and Data encryption. | **Action / comment:** Already it was made an internal analysis and till the end of October 2012, we will buy all the licences needed.**Owner: IT Manager – Marius Berceanu****Resolution date: 31 Oct 2012** |
| **8****B** | **Lack of ERP Exception Reports**No Exception Reports are currently generated from ORACLE ERP system as no relevant customization has been performed. Therefore monitoring over potential unauthorized amendments (e.g. adding, deletion, modification over master files) may not be promptly identified.**Payroll master file updates**Currently, payroll administrator is the only employee that has access to employee master files. However, no supervisor authority reviews potential amendments in terms of completeness and accuracy. Furthermore, no exception reports are produced and reviewed regarding potential unauthorized amendments over employee master files. | Business considers customizing ERP system (ORACLE) in order to identify potential unauthorized activities through ERP exception reports.Payroll master file updates are evidently reviewed by supervisory authorities regarding completeness and accuracy. Relevant exception reports are generated and reviewed regarding potential unauthorized amendments over employee master files. | **Action / comment:** Oracle Applications is a native secure application with very severely restrictions about access, update or delete for registered data. All data changes are tracked in application.IT team will analyze situations where users can make unauthorized changes in application that have a financial and accounting impact. For all these situations IT team will develop an audit report (Exception Report).**Owner: IT Manager – Marius Berceanu****Resolution date: 30 Nov 2012Action / comment:** Relevant reports will be generated and reviewed regarding potential unauthorized amendments over employee master files.**Owner: HR Manager – Raluca Tataru****Resolution date: 01.12.2012** |
| **9****B** | **Incomplete DRP testing**It was identified through discussions with the IT manager that the Disaster Recovery Plan (DRP) off-site testing has not been completed. | DRP is periodically tested over all applications in order to ensure smooth transition in case of a disaster.  | **Action / comment:** In this moment we are written all procedures in order to be able to make a full DRP test. **Owner: IT Manager – Marius Berceanu****Resolution date: 31 Dec 2012** |
| **NR** | **Credit Notes:**During our review over Credit invoices to customers, we noted that although they were properly approved, we could not retrieve any evidence regarding the reason of their issuance. | Credit Invoices are evidently approved and documented by the appropriate signatories according to DOA matrix. Sufficient evidence regarding the issuance of such credit invoices is always available. | **Action / comment:** Cash: the procedure will be reviewed and implemented respecting all recommendationsSecure: Customer department will issue a procedure describing what evidence must support the decision of issuing or not a Credit invoice.**Owner:** **Customer Director Cash – Gino Laios****Customer Director Secure – Valentin Badalan****Resolution date Cash: 30 Nov 2012****Resolution date Secure: 20 Sep 2012** |
| **NR** | **Unused space within company Premises (head office)**G4S Romania after the recent downsizing is underutilizing huge space within its rented premises. The current contract for the rented premises is valid for eight more years therefore it is not easy to terminate through renegotiation. The huge reduction in employees in 2010 due to loosing partial contract for Romania post office CNPRThe business has stop payment of rent to landlord BOC real property, outstanding RON 2m. | G4S Romania management put more effort to either renegotiate contract terms regarding the rented premises or to move to another location more convenient for the manpower currently available. | **Action / comment:** Ongoing negotiations with the landlord in order to reduce the office area. A proposal was submitted for review/approval to Regional Management.**Owner: Country Manager – Adrian Baicusi****Resolution date: 31 Oct 2012** |
| **NR** | KPMG listed in Administrator's Report that there may be an exposure to tax fines.Romanian tax legislation that overseas bank transfers and related party transactions must maintain pricing file (to log exchange rates used)Transfer pricing adjustments may be made by the tax authorities upon request or during tax audits. | The business must complete a transfer pricing documentation file is to illustrate how the transfer prices used overseas transactions. | **Action / comment:** Local management is aware about the provisions of the law. In case of tax audits usually the business has 60-90 days to prepare the transfer pricing documentation. We’ll ask KPMG to assist us in this bureaucratic exercise. Till then we can ask KPMG to make a valuation of the timeframe needed to prepare the documentation.**Owner: CFO - Florin Alexandrescu****Resolution date: 31 Dec 2012** |
|  **NR** | **CNPR Bad Debt Provision**Internal Audit acknowledges that in 2010 an exemption to the CNPR Bad debt has been granted by Group Finance. However, no provision has been calculated for the CNPR bad debt for the last two years. According to management the company is trying to recover the full amount of the debt. The full amount is recorded as other receivables in the balance sheet. Currently the CNPR overdue debt with more than 365 days is still recorded on balance sheet (including penalties for payment delays for.)At 30 June 2012, £12.7m for both Security (RO001) and Cash services (RO002) companies recorded as other receivable outstanding from Compania Nationala Posta Romana (‘CNPR’).Based on this finding, that receivables are overstated, KPMG has issued a qualifying opinion for both Security (RO001) and Cash services (RO002) companies in 2010 annual report. | The business should ensure that bad debt provision is in line with the exemption granted by Group Finance.. Group granted an exception for years 2010 and 2011, however this exception to Group policy has expired, no extension has been granted.  | **Action / comment:** Group finance is aware of provision is under provided and working with legal department to get it resolved.Local management will send to Group Finance a request for a written approval of the provision exemption for 2012.**Owner: CFO - Florin Alexandrescu****Resolution date: 30 Sep 2012** |