

Analyzing annual report: northern express group essay samples

[Business](#), [Company](#)



Disclosure related to accounting policies

The company under Note 2 of the financial statement has disclosed extensive information about the accounting policies being followed by it. Following the IFRS standards for the purpose of financial reporting, each accounting policy followed and implemented in the financial reporting process has been discussed, thus providing evidence for sufficiency of the disclosure of the accounting policies.

Relevance of Segmental Information

With companies going multinational there are different segments operating under the organizational framework. Hence, in order to ensure transparency related to the financial disclosures and to adhere to the regulations of the accounting standards, the companies do report segmental information so as to provide extensive financial information to the shareholders of the company.

As for National Express Inc, the company operates in 6 segments, namely UK Bus, UK Coach, North American Bus and Spanish Coach and Bus. A detailed information has been provided relating to each segment and their financial performance under Note 5 of the financial statement where the company declares that the operating business is organized and managed separately according to the nature of public transport each segment provide and the geographical market they operate in. Below is the information on each of the operating segment so shared in the strategy section of the annual report:

i) Segment: North America

-Activity of operation: Bus

The North American segment operates two areas of activity, i. e. Student transportation and transit services. The company operates in 36 US states and 4 Canadian provinces. While the student transport services operates through medium-term contracts earned from school boards, the transit business is operated through transit and para-transit contracts and operates only in the United States. During the latest financial year of 2013, this segment had revenue of £645 million and operating profit of £62. 6 Million.

ii)Segment- UK

-Activity of operation: Bus

The company is the market leader in the UK's largest urban bus market outside of London . UK Bus segment operates bus services through nine garages across the West Midlands. The company also runs bus services in the cities of Coventry and Dundee. In addition, we operate the Midland Metro light rail service between Birmingham and Wolverhampton. During the latest financial year of 2013, this segment had a revenue of £273. 4 million and operating profit of £31. 2 Million.

iii)Segment- UK

-Activity of operation: Coach

Another segment in UK also provides coach services. In fact, the company is also the largest operator of scheduled coach services in UK. The company operates high frequency coach services linking around 1, 000 destinations across the country. During the latest financial year of 2013, this segment had revenue of £263. 5 million and operating profit of £24. 5 Million.

iv)Segment- Spain

Activity of operation: Bus and Coach

The company entered the Spanish market by acquisition of ALSA, the leading road passenger company in Spain in 2005. The company benefited from the acquisition of a company with 100 years of experience and is now operating both bus and coach services in Spain. During the latest financial year of 2013, this segment had revenue of £564. 6 million and operating profit of £81. 5 Million.

iv)Segment- Rail

Activity of operations- Rail Commuting

The company operates rail services between London and South Essex and is expected to begin its services in Germany by 2015. During the latest financial year of 2013, this segment had revenue of £143 million and operating profit of £9. 8 Million.

Relevance of external audit of the financial statements

Just as the financial statements serve interests of varied users such as the investors use them for evaluating the trends in the company's financial performance, analysts use them for providing recommendations to the client, creditors for deciding on lending decision to the company, etc., even the report of an external auditor is of immense importance for all these participants as in order to have an effective use of the financial statement, they must know what is the role and responsibility of the external auditor and what are the implications of his opinion on the financial statements of the company.

Significance for employees and management

Every independent external auditor has the responsibility to ensure that if the financial statements are prepared in accordance to the financial accounting standards and also if the internal control standards employed by the organization are as per proposed code of conduct of the local law.

Hence, it is through the external auditor report, the employees and the management are able to know if the relevant financial accounting standards and internal control standards are followed by them in the preparation of financial statements and to ensure fair performance of the company, respectively.

Significance for shareholders and potential investors

Every company would like to present the most optimistic view of its financial performance in the financial statements. However, it is only the independent external auditors which through their audit process adds creditability to the financial statement of the company and thus allow the shareholders and the potential investors to use them with great confidence.

As discussed before, independent auditors evaluates the financial statements on which they express their opinion if the financial statements provide a true and fair view and if they are framed according the appropriate financial accounting standards. Hence, if the auditors has issued unqualified opinion in their report, the shareholders and the potential investors can be sure about the quality and authenticity of the financial statements. On the other hand, if the auditor provides a qualified opinion, it will have a skeptic effect on the shareholders and the potential investors.

External audit report of Northern Express Group

The team of Deloitte LLP are the external auditors of the company and have provided an unqualified opinion to the financial statements of the company where they declare that the financial statements of the company provides a true and fair view of the Northern Express Group and have been prepared in accordance to the provision of IFRS as adopted by European Union while the financial statements of the parent company have been prepared in accordance to the GAAP standards. Below is a snapshot of the section of auditor's report:

Ratio Analysis

In this section, we will analyze the financial performance of the group over the period of two years, using the tool of ratio analysis, namely, Liquidity Ratios, Profitability Ratios, Solvency Ratios and Efficiency Ratios. The objective of this section is to have a deep insight into the trend of Northern Express Group. In addition, we will also discuss few of the ratios for each operating segment of the company:

A) Group Ratios

-Liquidity Ratios

i) Current Ratio: Current Assets/ Current Liabilities

2012: $300.2 / 569 = 0.52$

2013: $253.4 / 481.2 = 0.52$

ii) Quick Ratio: Cash + Receivables/ Current liabilities

2012: $(72.8 + 19.13) / 569 = 0.16$

2013: $(40.2 + 21.2) / 481.2 = 0.12$

-Liquidity Analysis

Referring to the above calculations, we can witness that over a year, the company has lost on its liquidity that was already surviving hard with low ratio multiples. As for the current ratio, the multiple remained steady at 0.52, but it was our calculation of quick ratio that displayed the actual truth and indicated that since cash position of the company has reduced significantly, the multiple fell from 0.16 to 0.12 indicating weak financial roots of the company.

-Profitability Ratios

i) Net Profit Margin: $\text{Net profit} / \text{Revenue}$

2012: $61.3 / 1831.2 = 3.34\%$

2013: $58.3 / 1891.3 = 3.08\%$

ii) Return on Equity: $\text{Net Income} / \text{Total Equity}$

2012: $61.3 / 902.4 = 6.79\%$

2013: $58.3 / 897.3 = 6.49\%$

Profitability Analysis

Referring to the calculations above, we notice that over a year, the profitability of the group has decreased from 3.34% to 3.08% and the similar trend was also witnessed in the ROE multiple from 6.79% to 6.49%. Hence, this indicates that the company had a poor financial performance during the year and was not able to earn significant returns for its shareholders also.

-Solvency Ratios

i) Total Debt to Total Assets Ratio

2012: $786.8/2415.3 = 32.5\%$

2013: $750.7/2276.5 = 32.97\%$

ii) Interest Coverage Ratio: Operating Income/Interest Expenses

2012: $53.6/117.6 = 0.45$

2013: $56.6/117.9 = 0.48$

Solvency Analysis

Referring to the calculations above, we find that over a year, the solvency position of the company has been balanced with a marginal increase in the debt reliance supported by increase in interest coverage ratio. As indicated by the total debt to total asset ratio, the company financed 32.97% of its total assets as against 32.50% in 2012. However, the increase in debt position was justified with increase in the interest coverage ratio that surged from 0.45 to 0.48 courtesy increased operating income of the group.

-Efficiency Analysis

i) Total Asset Turnover: Revenue/ Total Assets

2012: $1831.2/2415.3 = 0.75$

2013: $1891.3/2276.5 = 0.83$

Efficiency Analysis

Referring to the above ratio calculated, we have noticed that during 2013, the total asset turnover of the group has increased from 0.75 to 0.83. However, this increase is not sustainable as the major source of the surge has been the decrease in the total asset base which decreased by 5.75% as against revenue figures that increased only 3.27%.

Hence, just like other sections, the management has also lost on maintaining efficiency to use its asset base.

B) Segmental Ratios

i) Operating Margin Ratio: Operating Income/ Revenue

UK Bus:

2012: $30.4/269 = 11.30\%$

2013: $29.8/273.4 = 10.89\%$

UK Coach:

2012: $18.1/255.1 = 7.09\%$

2013: $22.6/263.5 = 8.57\%$

North American Bus

2012: $33.2/578.3 = 5.74\%$

2013: $44.5/645 = 6.90\%$

Spanish Coach and Bus

2012: $42/535 = 7.85\%$

2013: $44.3/564.6 = 7.85\%$

Analysis

Referring to the calculations above, we can witness that except for UK Bus, all the other segments of the company have improved profit margins during 2013. However, UK Coach came up with the maximum jump from 7.09% in 2012 to 8.57% in 2013.

ii) Asset Turnover Ratio: Revenue/ Total Assets

UK Bus:

2012: $269/142.9 = 1.88$

2013: $273.4/153.5 = 1.78$

UK Coach:

2012: $255.1/66.7 = 3.82$

2013: $263.5/59 = 4.46$

North American Bus

2012: $578.3/878 = 0.65$

2013: $645/795.7 = 0.81$

Spanish Coach and Bus

2012: $535/1172.5 = 0.45$

2013: $564.6/1148.1 = 0.49$

Analysis

Referring to the calculation above, we found that while all the other segments have reported higher asset turnover ratio this year, it was only UK Bus that witnessed a fall from 1.88 to 1.78.

Corporate Governance Issues and Internal Control

The company being listed company is subject to Corporate Governance Code and the Board ensures that corporate governance practices are strictly followed so as to align the interests of the shareholders and also the management, amid growth of the firm. The issues and matters related to Corporate Governance are as follows:

• **Undertaking formal performance reviews of the Board, Committees and individual Directors**

- Determining the independence of Directors
- Receiving reports from the Company's major shareholders

The Corporate Governance Report also discusses the internal control policy of the company where the Board declares that it maintains full control over all the strategic, financial and operational internal control issues. In addition, the company also undertake internal audit for annual review of each operating company to assess the integrity of the balance sheet and to check the effective operation of key financial reporting and information systems controls. The results of the reviews are presented to both divisional and Group finance with any required actions agreed with the relevant divisional Finance Director. Other issues covered under the internal control framework of the company are:

- Financial Reporting Process
- Performance Management
- Annual Fitness Check Process
- Strategic and Financial Planning
- Capital Investment
- Health and Safety

Conclusion

At the end of this report and after conducting an in-depth qualitative and quantitative analysis of the annual report of Northern Express Company, we would recommend the company to our investors. Important to note, we have noticed that the profitability margins of the company has reduced marginally

during the year, however, high asset turnover ratio and promising interest coverage ratio of the company are some promising factors for strong performance in the future. Most importantly, the appreciable performance of each segment is also a big contributory factor for our recommendation of the company. The company is also expanding its rail and coach business in London and Germany that are expected to start operating by 2015. As for the qualitative part also, the company adheres to true and fair view presentation of the financial statements and the same is validated with an unqualified opinion issued by the external auditors. In addition, strong corporate governance reporting and internal control measures are also in favor of the company.

Hence, we are sure that with a sustainable growth set for the company in the upcoming years, our investors will be in high profits by investing in this company.

Works Cited

(2013). National Express Company. United Kingdom.

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