

# Audit Committee Report



**Richard Reid**  
Audit Committee Chair

## Members

During the year and as at the date of this report, members and Chair of the Committee have been as follows:

Richard Reid (Chair)  
Graham Allan  
Ruth Cairnie  
Wolfhart Hauser  
Dame Heather Rabbatts

## Meetings

The Committee met four times in the year under review.

## Primary responsibilities

In accordance with its terms of reference, the Audit Committee's primary responsibilities include:

### Financial reporting

- monitoring the integrity of the Group's financial statements and any formal announcements relating to the Company's performance, reviewing significant financial reporting judgements contained in them before their submission to the Board;
- informing the Board of the outcome of the Group's external audit and explaining how it contributed to the integrity of financial reporting;
- reviewing and challenging, where necessary, the consistency of, and changes to, accounting and treasury policies; whether the Group has followed appropriate accounting policies and made appropriate estimates and judgements; the clarity and completeness of disclosure; significant adjustments resulting from the audit; the going concern assumption; the viability statement; and compliance with accounting standards;

### Narrative reporting

- at the Board's request, reviewing the content of the annual report and accounts and advising the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- where requested by the Board, assisting in relation to the Board's robust assessment of the principal and emerging risks facing the Company and the prospects of the Company for the purposes of disclosures required in the annual report and accounts;
- reviewing and approving statements to be included in the annual report concerning the going concern statement and viability statement;

### Internal financial controls

- reviewing the effectiveness of the Group's internal financial controls and internal control and risk management systems (including the systems to identify, manage and monitor financial risks), including the policies and overall process for assessing established systems of internal financial control and timeliness and effectiveness of corrective action taken by management;

## Whistleblowing and fraud

- reviewing and reporting to the Board on the Group's arrangements for its employees and contractors to raise concerns, in confidence, about possible improprieties in financial reporting, financial and management accounting, or any other matters. The objective is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and appropriate follow-up action;
- reviewing the Group's policies, procedures and controls for preventing bribery, identifying money laundering, and the Group's arrangements for whistleblowing;

## Internal audit

- monitoring and reviewing the effectiveness and independence of the Group's internal audit function in the context of the Group's overall risk management system;
- considering and approving the remit of the internal audit function, ensuring it has adequate resources and appropriate access to information to enable it to perform its function effectively; and

## External audit

- overseeing the relationship with the Group's external auditor, including reporting to the Board each year whether it considers the audit contract should be put out to tender, adhering to any legal requirements for tendering or rotation of the audit services contract as appropriate, reviewing and monitoring the external auditor's objectivity and independence, agreeing the scope of their work and fees paid to them for audit, assessing the effectiveness of the audit process, and agreeing the policy in relation to the provision of non-audit services.

## Governance

The Audit Committee comprises a minimum of three members, all of whom are independent non-executive directors of the Company. Two members constitute a quorum.

The Committee Chair fulfilled the requirement that there must be at least one member with recent and relevant financial experience and competence in accounting or auditing (or both) during the year. In addition, the Committee as a whole has competence in the sectors in which the Company operates. All Committee members are expected to be financially literate and to have an understanding of the following areas:

**Audit Committee Report** *continued*

- the principles of, and developments in, financial reporting including the applicable accounting standards and statements of recommended practice;
- key aspects of the Company's operations including corporate policies and the Group's internal control environment;
- matters which may influence the presentation of accounts and key figures;
- the principles of, and developments in, company law, sector-specific laws and other relevant corporate legislation;
- the role of internal and external auditing and risk management; and
- the regulatory framework for the Group's businesses.

The Committee invites the Finance Director, Group Financial Controller, Director of Financial Control and senior representatives of the external auditor to attend its meetings in full, although it reserves the right to request any of these individuals to withdraw. Other senior managers are invited to present such reports as are required for the Committee to discharge its duties.

During the year, the Committee held four meetings with the external auditor without any executive members of the Board being present.

The Committee has unrestricted access to Company documents and information, as well as to employees of the Company and the external auditor.

The Committee may take independent professional advice on any matters covered by its terms of reference at the Company's expense.

The Committee Chairman reports the outcome of meetings to the Board.

The performance of the Audit Committee was considered in the external Board evaluation, which found that the Committee was universally well-regarded as being strong and effective. It was noted that members came to the meetings well prepared and offered robust challenge and that the agenda of meetings was broad-ranging, well-structured and covered all the matters in the Audit Committee's remit.

The terms of reference of the Audit Committee can be viewed on the Investors section of the Company's website: [www.abf.co.uk](http://www.abf.co.uk).

**Meetings**

The Audit Committee met four times during the year. The Committee's agenda is linked to events in the Group's financial calendar.

**Activities during the year**

In order to fulfil its terms of reference, the Audit Committee receives and reviews presentations and reports from the Group's senior management, consulting as necessary with the external auditor.

**Monitoring the integrity of reported financial information**

Ensuring the integrity of the financial statements and associated announcements is a fundamental responsibility of the Audit Committee.

During the year it formally reviewed the Group's interim and annual reports.

These reviews considered:

- the description of performance in the annual report to ensure it was fair, balanced and understandable;
- the accounting principles, policies and practices adopted in the Group's financial statements, any proposed changes to them, and the adequacy of their disclosure;
- important accounting issues or areas of complexity, the actions, estimates and judgements of management in relation to financial reporting and in particular the assumptions underlying the going concern and viability statements;
- any significant adjustments to financial reporting arising from the audit;
- tax contingencies, compliance with statutory tax obligations and the Group's tax policy;
- cybersecurity;
- consideration of the potential implications of the BEIS White Paper: Restoring Trust in Audit and Corporate Governance;
- COVID-19 challenges and response assurance plan;
- consideration of the implications of the FCA's listing rules, published in November 2020, on the Task Force on Climate-related Financial Disclosures (TCFD). These rules on TCFD will apply to ABF in the annual report for 2022;
- treasury policies; and
- Group long-term funding options.

**Significant accounting issues considered by the Audit Committee in relation to the Group's financial statements**

A key responsibility of the Committee is to consider the significant areas of complexity, management judgement and estimation that have been applied in the preparation of the financial statements. The Committee has, with support from Ernst & Young LLP ('EY') as external auditor, reviewed the suitability of the accounting policies which have been adopted and whether management has made appropriate estimates and judgements.

Set out below are the significant areas of accounting judgement or management estimation and a description of how the Committee concluded that such judgements and estimates were appropriate. These are divided between those that could have a material impact on the financial statements and those that are less likely to have a material impact but nevertheless, by their nature, required a degree of estimation.

### **Impairment of goodwill, intangible, tangible and right-of-use assets**

Assessment for impairment involves comparing the book value of an asset with its recoverable amount, being the higher of value-in-use and fair value less costs to sell. Value-in-use is determined with reference to projected future cash flows discounted at an appropriate rate. Both the cash flows and the discount rate involve a significant degree of estimation uncertainty.

The Committee considered the reasonableness of cash flow projections which were based on the most recent budget approved by the Board and reflected management's expectations of sales growth, operating costs and margins based on past experience and external sources of information. The Committee focused on Azucarera, Allied Bakeries, China Sugar, Australian meat, and AB Mauri.

Long-term growth rates for periods not covered by the annual budget were challenged to ensure they were appropriate for the products, industries and countries in which the relevant cash-generating units operate. The Committee also reviewed and challenged the key assumptions made in deriving these projections: discount rates, growth rates, and expected changes in production and sales volumes, selling prices and direct costs. The Committee also considered the adequacy of the disclosures in respect of the key assumptions and sensitivities. Refer to notes 8 and 9 to the financial statements for more details of these assumptions.

The Committee was satisfied that the discount rate assumptions appropriately reflected current market assessments of the time value of money and the risks associated with the particular assets. The other key assumptions were all considered to be reasonable.

On the basis of the key assumptions and associated sensitivities, an impairment charge of £141m in property, plant and equipment at Azucarera and other sugar businesses was appropriately recognised and included within exceptional items as detailed in notes 8 and 9.

The external auditor undertook an independent audit of the estimates of value-in-use and fair value less costs to sell, including a challenge of management's underlying cash flow projections, long-term growth assumptions and discount rates. On the basis of its work, and its challenge of the key assumptions and sensitivities, it considered that the impairment charges as detailed in notes 8 and 9 were appropriately recognised.

### **Impact of COVID-19 on the viability statement and going concern**

The COVID-19 pandemic continues to be a worldwide crisis and the situation is still uncertain. Authorities continue to impose restrictions on both a regional and local basis.

COVID-19 has had a particular impact on the cash flow and profitability of the retail business.

The Board considered future performance and cash flows in its going concern assessment, through to February 2023, and its viability statement over the next three years.

Management has undertaken a detailed financial modelling exercise that has considered the impact on profit, cash and working capital of a number of potential scenarios.

Since March last year, when the pandemic became apparent, the Audit Committee, on behalf of the Board, has considered the implications of COVID-19 and provided ongoing support and challenge of management's accounting, reporting and internal controls. As the pandemic continues to evolve, focus has been given to the retail business, which is most likely to be adversely impacted by any future restrictions imposed.

The Committee has reviewed and challenged the scenarios considered by management and concluded that these, and the stress-testing scenarios and assumptions, were appropriate and adequate.

The Committee has reviewed the detailed cash flow forecasts, which incorporate the mitigating actions proposed by management. The Committee also reviewed and challenged the reverse stress assumptions to confirm the viability of the Group.

The Committee has been kept informed of the impacts of COVID-19 on the Group, including accounting matters, going concern and viability considerations, and UK FRC and FCA pronouncements. The Committee has satisfied itself that management has adequately identified and considered all potentially significant accounting and disclosure matters.

**Audit Committee Report** *continued*

Areas of significant accounting judgement and estimation material to the Group financial statements	Audit Committee assurance
<p><b>Taxation</b></p> <p>Current and deferred tax recognised in the financial statements is dependent on subjective judgements as to the outcome of decisions by tax authorities in various jurisdictions around the world and the ability of the Group to use tax losses within the time limits imposed by various tax authorities.</p>	<p>The Committee reviews the Group's tax policy and principles for managing tax risks annually.</p> <p>The Committee reviewed and challenged the provisions recorded and the contingent liabilities disclosed at the balance sheet date and management confirmed that they represent their best estimate of the financial exposure faced by the Group.</p> <p>The external auditor explained to the Committee the work they had conducted during the year, including how their audit procedures were focused on those provisions requiring the highest degree of judgement. The Committee discussed with both management and the external auditor the key judgements which had been made. The Committee was satisfied that the judgements were reasonable and that, accordingly, the provision amounts recorded were appropriate.</p>
Other accounting areas requiring management judgement or estimation	Audit Committee assurance
<p><b>Post-retirement benefits</b></p> <p>Valuation of the Group's pension schemes and post-retirement medical benefit schemes require various subjective judgements to be made including mortality assumptions, discount rates, general and salary inflation, and the rate of increase for pensions in payment and those in deferment.</p>	<p>Actuarial valuations of the Group's pension scheme obligations are undertaken every three years in the UK by an independent qualified actuary who also provides advice to management on the assumptions to be used in preparing the accounting valuations each year. Actuarial valuations in other jurisdictions are performed as required. Details of the assumptions made in the current and previous year are disclosed in note 12 of the financial statements together with the bases on which those assumptions have been made.</p> <p>The Committee reviewed the assumptions by comparison with externally derived data and also considered the adequacy of disclosures in respect of the sensitivity of the surplus to changes in these key assumptions.</p>

### Misstatements

Management reported to the Committee that they were not aware of any material or immaterial misstatements made intentionally to achieve a particular presentation. The external auditor reported to the Committee the misstatements that they had found in the course of their work. After due consideration the Committee concurred with management that these misstatements were not material and that no adjustments were required.

### Internal financial control and risk management

The Committee is required to assist the Board to fulfil its responsibilities relating to the adequacy and effectiveness of the control environment, controls over financial reporting and the Group's compliance with the 2018 Code. To fulfil these duties, the Committee reviewed:

- the external auditors' summary of management letters and their Audit Committee reports;
- internal audit reports on key audit areas and any significant deficiencies in the financial control environment;
- reports on the systems of internal financial control and risk management;
- an assessment of business continuity plans in place in the Group's businesses;
- reports on fraud perpetrated against the Group;
- the Group's approach to anti-bribery and corruption, and whistleblowing;
- the Group's approach to IT and cybersecurity; and
- reports on significant systems implementations.

### Internal audit

The Audit Committee is required to assist the Board in fulfilling its responsibilities for ensuring the capability of the internal audit function and the adequacy of its resourcing and plans.

To fulfil its duties, the Committee reviewed:

- internal audit's reporting lines and access to the Committee and all members of the Board;
- internal audit's plans and its achievement of the planned activity;
- the results of key audits and other significant findings, the adequacy of management's response and the timeliness of their resolution; and
- changes in internal audit personnel to ensure appropriate resourcing, skills and experience are put in place.

The Chair of the Committee met with the Director of Financial Control regularly during the year to monitor the

effectiveness of the internal audit function, receiving updates on audit progress and statistics on outstanding issues.

### Whistleblowing and fraud

The Group's approach to whistleblowing was reviewed during the year. The Whistleblowing Policy has been rebranded and relaunched as 'Speak Up'. It is designed to protect ABF's culture of fairness, trust, accountability and respect, encouraging effective and honest communication at all levels. In addition, a new independent external service provider was appointed to receive, in confidence, complaints on accounting, risk issues, internal controls, auditing issues and related matters for reporting to the Audit Committee as appropriate. Further details on the policy can be found on page 84. The Committee reviewed reports from internal audit and the actions arising therefrom and reported this to the Board.

The Group's Anti-fraud Policy has been communicated to all employees and states that all employees have a responsibility for fraud prevention and detection. Any suspicion of fraud should be reported immediately and will be investigated vigorously. The Audit Committee reviewed all instances of fraud perpetrated against the Group and the action taken by management both to pursue the perpetrators and to prevent reoccurrences.

### External audit

#### Auditor independence

The Audit Committee is responsible for the development, implementation and monitoring of policies and procedures on the use of the external auditor for non-audit services, in accordance with professional and regulatory requirements. These policies are kept under review to meet the objective of ensuring that the Group benefits in a cost-effective manner from the cumulative knowledge and experience of its auditor, whilst also ensuring that the auditor maintains the necessary degree of independence and objectivity. The Committee's policy on the use of the external auditor to provide non-audit services is in accordance with applicable laws and takes into account the relevant ethical guidance for auditors. Any non-audit work to be undertaken by the auditor requires authorisation by the Finance Director and above a certain threshold, by the Audit Committee, prior to its commencement. The Committee also ensures that fees incurred, or to be incurred, for non-audit services, both individually and in aggregate, do not exceed any limits in applicable law and

take into account the relevant ethical guidance for auditors.

The Committee is required to approve the use of the external auditor to provide: accounting advice and training; corporate responsibility and other assurance services; financial due diligence in respect of acquisitions and disposals; and will consider other services when it is in the best interests of the Company to do so, provided they can be undertaken without jeopardising auditor independence. Tax services including tax compliance, tax planning and related implementation advice may not be undertaken by the external auditor except in very exceptional circumstances where specialist knowledge is required. The aggregate expenditure with the Group auditor is reviewed by the Audit Committee. No individually significant non-audit assignments that would require disclosure were undertaken in the financial year.

The Company has a policy that any partners, directors or senior managers hired directly from the external auditor must be pre-approved by the Chief People and Performance Officer, and the Finance Director or Group Financial Controller, with the Chair of the Audit Committee being consulted as appropriate.

The Audit Committee has formally reviewed the independence of the external auditor. EY has reported to the Committee confirming that it believes it remained independent throughout the year, within the meaning of the regulations on this matter and in accordance with its professional standards.

To fulfil its responsibility to ensure the independence of the external auditor, the Audit Committee reviewed:

- a report from the external auditor describing arrangements to identify, report and manage any conflicts of interest, and policies and procedures for maintaining independence and monitoring compliance with relevant requirements; and
- the extent of non-audit services provided by the external auditor.

The total fees paid to EY for the 53 weeks ended 18 September 2021 were £9.1m, of which £0.7m related to non-audit work. Further details are provided in note 2 to the financial statements.

## Audit Committee Report *continued*

### Auditor effectiveness

To assess the effectiveness of the external auditor, the Committee reviewed:

- the external auditor's fulfilment of the agreed audit plan and variations from it;
- reports highlighting the major issues that arose during the course of the audit;
- feedback from the businesses via questionnaires evaluating the performance of each assigned audit team, planning, challenge and interaction with the business; and
- a report on EY, as a firm, from the Audit Quality Review Team ('AQRT') of the Financial Reporting Council ('FRC').

The Audit Committee holds private meetings with the external auditor after each Committee meeting to review key issues within their sphere of interest and responsibility.

To fulfil its responsibility for oversight of the external audit process, the Audit Committee reviewed:

- the terms, areas of responsibility, associated duties and scope of the audit as set out in the external auditor's engagement letter;
- the overall work plan and fee proposal;
- the major issues that arose during the course of the audit and their resolution;
- key accounting and audit judgements;
- the level of errors identified during the audit; and
- recommendations made by the external auditor in their management letters and the adequacy of management's response.

### Auditor appointment

The Audit Committee reviews annually the appointment of the auditor, taking into account the auditor's effectiveness and independence, and makes a recommendation to the Board accordingly. Any decision to open the external audit to tender is taken on the recommendation of the Audit Committee.

The Company's current external auditor, EY, was first appointed at the annual general meeting in December 2015, with effect from 2016, following the conclusion of a competitive tender process. The Audit Committee is satisfied with the auditor's effectiveness and independence and has recommended to the Board that EY be reappointed as the Company's external auditor for 2021/22. In accordance with applicable law and regulation, the Company is required to conduct a competitive audit tender during 2025. The Audit Committee has discussed the most appropriate time to carry out the external audit tender process, taking into account the independence, objectivity and quality of EY's external audit and has concluded that, based on current performance, it is anticipated that a competitive tender process will commence in 2025. The Audit Committee considers that a competitive tender is in the best interests of the Company's shareholders as it will allow the Company to appoint the audit firm that will provide the highest quality, most effective and efficient audit.

### Compliance with the CMA Order

The Company confirms that, during the period under review, it has complied with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.