

## Audit committee report

### 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

### 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 assessment of the principal risks facing the Company and the prospects of the Company for the purposes of disclosures required in the annual report and accounts;

#### Internal financial controls

- reviewing the effectiveness of the group's internal financial controls, 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

- overseeing 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 financial 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:

- 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 as a whole has competence relevant to the sectors in which the group operates.

The committee invites the Group 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.

## Corporate governance

The committee's effectiveness was reviewed during the second half of the year as part of the board's annual performance evaluation. A description of how the evaluation was conducted is set out on page 74 of the corporate governance report.

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. This included preparation for the adoption of IFRS 16 *Leases* from the next financial year and the disclosures in this year's interim and annual reports;
- 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; and
- tax contingencies, compliance with statutory tax obligations and the group's tax policy.

### 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.

#### Areas of significant accounting judgement and estimation material to the group financial statements

##### Impairment of goodwill, intangible and tangible 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.

#### Audit committee assurance

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. 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.

The external auditor undertook an independent audit of the estimate 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 their audit work, and their challenge of the key assumptions and associated sensitivities, they considered that the £65m impairment charge to the tangible fixed assets of Allied Bakeries was appropriately recognised and that no further impairments were required.

##### Tax provisions

The level of 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 the various tax authorities. See also reference to taxation on page 51.

The committee reviews the Company's tax policy and principles for managing tax risks annually.

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.

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. It was satisfied that the judgements were reasonable and that, accordingly, the provision amounts recorded were appropriate.

#### Areas of significant accounting judgement and estimation material to the group financial statements

##### Leases

The group will adopt IFRS 16 *Leases* from the next financial year and the effects of transition to this new accounting standard are set out in the Significant Accounting Policies. Judgement is required in determining the term of each lease, the discount rate used to value the lease liabilities and right-of-use assets disclosed and in identifying lease arrangements under the scope of IFRS 16.

#### Audit committee assurance

The committee received updates from management outlining the effect of the new standard, including the judgements and key assumptions used in the estimation of the impact.

The committee reviewed the judgement applied in identifying lease arrangements and the reasonableness of lease terms determined by management including their assessments of options to terminate and extend leases. The committee was satisfied that the discount rate assumptions appropriately reflected current market assessments of the incremental borrowing rate for each of the group's subsidiaries in respect of their lease commitments.

The external auditor undertook an assessment of management's assumptions, using independent experts, and considered that the transition disclosure in respect of the adoption of IFRS 16 from the next financial year was appropriate.

#### Other accounting areas requiring management judgement or estimation

##### Post-retirement benefits

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.

#### Audit committee assurance

Actuarial valuations of the group's pension scheme obligations are undertaken every three years by independent qualified actuaries who also provide advice to management on the assumptions to be used in preparing the accounting valuations each year. Details of the assumptions made in the current and previous year are disclosed in note 11 of the financial statements together with the bases on which those assumptions have been made.

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 or deficit to changes in these key assumptions.

#### 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.

- 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 Whistleblowing Policy contains arrangements for an independent external service provider to receive, in confidence, complaints on accounting, risk issues, internal controls, auditing issues and related matters for reporting to the Audit committee as appropriate. The Audit committee reviewed reports from internal audit and the actions arising therefrom. Further details on the policy can be found on page 57.

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 Company and the action taken by management both to pursue the perpetrators and to prevent recurrences.

#### 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 UK Corporate Governance Code. To fulfil these duties, the committee reviewed:

- the external auditors' 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;
- internal audit's evaluation of the group's readiness for a 'no deal' Brexit;

# Corporate governance

## 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 Group Finance Director and 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 Group HR Director, and the Group Finance Director or Group Financial Controller, with the Chairman 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 their 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 52 weeks ended 14 September 2019 were £8.6m of which £0.8m related to non-audit work. Further details are provided in note 2 to the financial statements.

### *Auditor effectiveness*

To assess the effectiveness of the external auditors, 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 auditors 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 auditors in their management letters and the adequacy of management's response.

### *FRC Audit Quality Review of the Company's 2018 audit by EY*

During the year, the Audit Quality Review Team from the FRC undertook a review of EY's audit of the Group's 2018 financial statements. At the time of writing the AQRT had yet to conclude this review. Indicative recommendations for improvement included impairment testing, including how EY evidenced they had challenged management's assumptions and evidenced their involvement in and oversight of the work of component audit teams.

The Audit committee discussed the indicative review findings with EY, reviewed EY's proposed actions to address these findings and is satisfied that these changes were implemented for the 2019 audit.

### *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 2019/20. The Company has no current retendering plans, but keeps such plans under review in light of the applicable legal and regulatory framework.

### *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.