

## J Sainsbury plc

### Audit Committee – Terms of Reference

Approved by the Board on 2 March 2017

Note: References to “the Committee” shall mean the Audit Committee; references to “the Board” shall mean the Board of Directors; references to “the Company” shall mean J Sainsbury plc.

#### 1. Purpose

- 1.1 The primary function of the Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring the integrity of the financial information provided to shareholders, the Company’s system of internal controls and risk management, the internal and external audit process and auditors and the process for compliance with laws, regulations and ethical codes of practice.

#### 2. Membership

- 2.1 The Committee shall comprise at least three members. Members of the Committee shall be appointed by the Board.
- 2.2 All members of the Committee shall be independent non-executive directors, at least one of whom shall have competence in accounting or auditing or both. The Committee as a whole shall have competence relevant to the retail sector.
- 2.3 The Chairman of the Board shall not be a member of the Committee.
- 2.4 Only members of the Committee have the right to attend Committee meetings. However, the Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Director of Internal Audit, Director of Group Finance, representatives from Sainsbury’s Bank and the external auditor will be invited to attend meetings of the Committee on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 2.5 The Board is responsible for the appointment of members to the Committee, for setting the term of members’ appointments and for the revocation of any such appointments.
- 2.6 The Board shall appoint the Committee Chairman. In the absence of the Committee Chairman, the remaining members present shall elect one of themselves to chair the meeting.

#### 3. Secretary

- 3.1 The Company Secretary, or his or her nominee, shall act as secretary of the Committee and will ensure that the Committee receives information and papers in good time in advance of the meeting.

#### 4. Quorum

- 4.1 The quorum shall be two members one of whom should be the Committee Chairman unless he/she is unable to attend.

#### 5. Frequency of meetings

- 5.1 The Committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 5.2 The external auditor and Director of Internal Audit may request a meeting if they consider that one is necessary.

## **6. Minutes of Meetings**

- 6.1 The Secretary shall minute the proceedings and decisions of all meetings of the Committee.
- 6.2 The minutes of the meeting shall be circulated promptly to all members of the Committee, the Board and the Director of Internal Audit.

## **7. Duties**

### **7.1 Financial reporting**

- 7.1.1. The Committee shall monitor the integrity of the financial statements of the Company, and any other formal announcement relating to its financial performance, reviewing and reporting to the Board significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the external auditor.
- 7.1.2. In particular, the Committee shall review and challenge where necessary:
- (i) the consistency of, and any changes to, significant accounting policies;
  - (ii) significant issues and how these were addressed;
  - (iii) significant estimates and judgements;
  - (iv) the clarity and completeness of disclosure in the Company's annual report and the context in which the statements are made;
  - (v) the assumptions or qualifications in support of the going concern statement and the longer term viability statement; and
  - (vi) material information presented in the annual report, such as the Strategic Report, and corporate governance statements relating to the audit and to risk management.
- 7.1.3. The Committee should review the content of the annual report and accounts and advise 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 performance, business model and strategy.

### **7.2 Internal Controls and Risk Management Systems**

- 7.2.1 The Committee shall review and monitor the adequacy and effectiveness of the internal financial controls and internal control and risk management systems of the Group, and shall receive sufficient information from the Audit and Risk Committees of Sainsbury's Bank in order to review the controls and systems of Sainsbury's Bank. The Committee shall report on that review in the annual report.

### **7.3 Compliance, whistleblowing and fraud**

The Committee shall:

- 7.3.1 review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters ensuring there is proportionate and independent investigation of such matters and appropriate follow up action;
- 7.3.2 review the Company's procedures for detecting fraud and receive an update at each meeting on significant issues;
- 7.3.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance; and
- 7.3.4 review the Company's compliance with the Groceries Supply Code of Practice (GSCOP), monitor the work of the Company's Code Compliance Officer and approve the annual compliance report.

#### **7.4 Internal Audit**

The Committee shall:

- 7.4.1 monitor and review the effectiveness of the Internal Audit function and ensure its independence. To facilitate and maintain independence, the Director of Internal Audit shall report to the Chairman of the Committee who will agree his/her targets. Functionally and administratively he/she shall report to the Chief Financial Officer.
- 7.4.2 review and approve the remit of the Internal Audit function and ensure it has the necessary resources and access to information to enable it to fulfil its mandate;
- 7.4.3 approve the annual Internal Audit plan;
- 7.4.4 receive a report on the results of the Internal Audit's work;
- 7.4.5 review and monitor management's responsiveness to Internal Audit's findings and recommendations;
- 7.4.6 ratify the appointment or termination of the Director of Internal Audit; and
- 7.4.7 review and approve annually the Internal Audit charter.

#### **7.5 External Audit**

The Committee shall:

- 7.5.1 consider and make recommendations to the Board, for approval at the AGM, on the appointment, reappointment and removal of the Company's external auditor, and initiate and oversee the tender process of the external audit contract, every ten years in accordance with legal requirements;
- 7.5.2 if the external auditor resigns, investigate the issues leading to this and decide on any action to be taken;
- 7.5.3 oversee the relationship with the external auditor and determine and agree their terms of engagement and their remuneration (including fees for audit and non-audit services), so as to ensure that the level of fees is appropriate to enable an effective and high quality audit to be undertaken;
- 7.5.4 monitor, review and assess at least annually the external auditor's independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the external auditor as a whole, including the provision of any non-audit services;
- 7.5.5 set and apply a policy in relation to the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter;
- 7.5.6 assessing annually the qualifications, expertise and resources of the external auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
- 7.5.7 determine and agree the scope of the audit engagement and approve the annual external audit plan ensuring that it is consistent with the scope of the audit engagement;
- 7.5.8 monitoring the external auditor's compliance with relevant professional and ethical guidance on the rotation of the audit partner;
- 7.5.9 meet regularly with the external auditor, without management being present, to discuss the external auditor's remit and any issues arising from the audit;
- 7.5.10 review the results of the audit with the external auditor;
- 7.5.11 review any representation letters requested by the external auditor before they are signed by management; and
- 7.5.12 review the management letter and management's response to the external auditor's findings and recommendations.

#### **8. Reporting responsibilities**

- 8.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting.

8.2 The Committee shall approve the report on its activities in the Company's annual report which should include:

- 8.2.1 an explanation of how the Committee has addressed the effectiveness of the external audit process;
- 8.2.2 the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed; and
- 8.2.3 all other disclosure information requirements in accordance with regulations and with the UK Corporate Governance Code.

## **9. Other matters**

The Committee shall:

- 9.1 have access to sufficient resources in order to carry out its duties;
- 9.2 give due consideration to laws and regulations, the provisions of the Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate;
- 9.3 oversee any investigation of activities which are within its terms of reference;
- 9.4 once a year consider its own performance and review its membership and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval; and
- 9.5 undertake any other related duties as directed by the Board.

## **10. Authority**

The Committee is authorised to:

- 10.1 seek any information it requires from any colleague in order to perform its duties and all colleagues should be directed to co-operate with any request made by the Committee;
- 10.2 call any colleague to be questioned at a meeting of the Committee as and when required; and
- 10.3 obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so.