

# **CO-OPERATIVE GROUP LIMITED**

## **RISK AND AUDIT COMMITTEE**

### Terms of Reference

(as approved by the Board of Co-operative Group Limited on 26 March 2025)

## **1. Scope**

This document sets out the Terms of Reference of the Risk and Audit Committee (the 'Committee') of Co-operative Group Limited. The Committee is a committee of the Co-operative Group Limited Board (the 'Board') established in accordance with the Co-op's Rules 45.1(a).

## **2. Interpretation**

Capitalised terms used but not defined in these Terms of Reference shall have the meaning given to them in the Co-operative Group Limited Rules (the 'Rules').

In the context of these Terms of Reference 'Group' means Co-operative Group Limited and all its subsidiary entities..

## **3. Responsibilities**

The responsibilities of the Committee are as follows:

### **3.1 Financial and Regulatory Reporting**

- a) to monitor the integrity of the financial statements of the Group and any other formal announcements relating to the Group's financial performance or prospects, including annual and half year results, and other formal statements, reviewing all significant financial reporting issues and/or judgements contained or reflected therein;
- b) in particular, to review and challenge as necessary:
  - i. the application of significant accounting policies and any changes to them;
  - ii. the approach to accounting for significant or unusual transactions;
  - iii. whether the Group has followed appropriate accounting standards and made appropriate estimates or judgements, taking into account the views of the Group's external auditor;
  - iv. the clarity and balance of disclosure in the Group's financial statements, having regard also to the context in which such statements are made;
  - v. the completeness, accuracy and/or appropriateness of all material information presented with the financial statements, including any strategic review, corporate governance or similar statements;
  - vi. going concern assumptions, the viability statement, and any other statements requiring Board approval, with respect to any member of the Group being a going concern, exercising judgement in considering those matters that inform the assessment of whether any member of the Group is a going concern, and to make appropriate recommendations in that regard to the Board.
- c) to review the content of the Group's Annual Report and Accounts and to advise the Board on whether, taken as a whole, it is fair, balanced and understandable, and provides the information necessary for Members and other stakeholders to assess the Group's performance, business model and strategy;

- d) to receive, review and recommend to the Board the approval and adoption of the consolidated financial statements of the Group;
- e) to review:
  - i. compliance with all applicable accounting policies and practices and to consider compliance with regulatory responsibilities;
  - ii. the controls and procedures established by the Leadership team for compliance with regulatory and financial reporting requirements and with the requirements of the Group's regulators.
- f) where the Committee is not satisfied with any aspect of any proposed financial reporting and is unable to resolve such matters with Co-op Leaders, the Committee shall report its views to the Board; and
- g) to have oversight of the Group's compliance with the Grocery Supply Code of Practice (GSCOP) by ensuring that a Compliance Officer is appointed, compliance reports are submitted to the Committee on a regular basis, a summary of the GSCOP Compliance Officer's annual report to the Groceries Code Adjudicator (GCA) is included in the Annual Report and Accounts and that the GSCOP Annual Compliance Report is approved by the Committee Chair and submitted to the Competition and Markets Authority (CMA) within the regulatory timeframe.

### **3.2 Risk Management and Internal Controls**

- a) to review and monitor the Group's internal financial controls and the framework and effectiveness of the Group's internal control and risk management systems;
- b) to review the approach to the identification and assessment of the emerging and principal risks facing the Group, including the management and mitigation of those risks and the consideration of acceptable risk tolerance levels for the Group;
- c) to review and approve statements to be included in the Annual Report and Accounts concerning risk management and internal control, including a declaration of the effectiveness of the Group's material controls, required to protect and grow our Co-op;
- d) to provide advice to the Group Board on the current risk exposures and future risk strategy of the Group, including the embedding and maintenance of a supportive culture in relation to the management of risk across the Group;
- e) to facilitate the effective contribution and involvement of all members of the Board and aid their understanding of risk issues and the risk management framework;
- f) to maintain direct oversight of the Group's principal risks and oversee adherence to risk principles and standards and any action taken resulting from material control weaknesses across the Group; and
- g) to have oversight of the risks to the Group in having subsidiaries regulated by the FCA, whilst recognising that the management of regulatory risk in relation to any regulated activity carried on by those entities is a matter for the independent boards of those subsidiaries.

### **3.3 Internal Audit**

- a) To ensure that the Director of Risk and Internal Audit has direct access to the Chair of the Board and the Committee Chair, providing independence from the executive and senior management and accountability to the Committee;
- b) to approve the Internal Audit function's strategy and performance objectives and monitor and evaluate the performance of the Internal Audit function in the context of the overall risk management systems and wider regulatory and legislative requirements;
- c) to approve the appointment and removal of the Director of Risk and Internal Audit, with the Committee Chair providing input into the performance evaluation and remuneration

of the Director of Risk and Internal Audit;

- d) to consider the authority, role and mandate of Internal Audit, monitor and review the effectiveness of its work, and annually approve the Internal Audit Charter ensuring it is appropriate for the current needs of the Group;
- e) to ensure the Internal Audit function has adequate budget and resources and that the quality, experience and expertise of the Internal Audit function is appropriate;
- f) to support Internal Audit to obtain un-restricted access to the data, records, information, colleagues and physical properties necessary to fulfil the Internal Audit mandate and enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- g) to put safeguards in place limiting impairments to independence or objectivity where the Director of Risk and Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing;
- h) to review, assess and approve the Internal Audit plan ensuring it is aligned to the key risks of the Group;
- i) to set expectations for the frequency with which the Committee receives communications from the Director of Audit and Risk, and the criteria for determining which issues should be escalated to the Committee;
- j) to gain an understanding of the effectiveness of the Group's governance, risk management and control processes based on the results of Internal Audit work and review and monitor management's responsiveness to the issues contained in audit reports, including the timely completion of audit actions;
- k) to review and monitor significant findings from major investigations, including those arising from whistleblowing reports and management's response to such matters;
- l) to determine whether it is satisfied that the Director of Risk and Internal Audit has the necessary qualifications, experience and competencies to carry out their role and responsibilities;
- m) to oversee the Internal Audit function's quality assurance and improvement programme including the Director of Risk and Internal Audit's plan to address any deficiencies identified either through internal or external quality assessments; and
- n) to obtain an independent external assessment of the Internal Audit function at appropriate intervals, with the Committee Chair overseeing and approving the appointment process for the independent assessor.

### **3.4 External Audit**

- a) To consider and make recommendations to the Board, to be put to Members for approval, in relation to the appointment, re-appointment and removal of the external auditor, and if an external auditor resigns, to investigate the reasons for this to determine whether any action is required;
- b) to put the external audit services contract out to tender at such intervals as the Committee determines and oversee the selection process in respect of such tender;
- c) to approve the external auditors' remuneration, including both fees for audit or non-audit services and ensure the level of fees is appropriate to enable an effective and high quality audit to be conducted;
- d) to conduct an annual review of the effectiveness of the external auditor and of the audit process;
- e) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- f) assessing annually their independence and objectivity, taking into account relevant UK law, regulation, ethical standards, professional and regulatory requirements and

the relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services;

- g) to oversee the relationship with the external auditor including (but not limited to):
  - i. satisfying itself that there are no relationships between the external auditor and the Group which could adversely affect the auditor's independence or objectivity;
  - ii. agreeing a policy on the employment of former colleagues of the external auditor, and monitoring its implementation;
  - iii. the development and implementation of a policy on the provision of non-audit services by the external auditor, including approval of non-audit services by the Committee or nominated Committee member and specifically the type of non-audit services to be pre-approved and assessment of whether non-audit services have a direct or material effect on the audited financial statements, taking into account any relevant law, regulation or ethical guidance;
  - iv. monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Group compared to the overall fee income of the firm, office and partner and other related requirements;
  - v. assessing annually the qualifications, expertise and resources of the external auditor and the effectiveness of the audit process
- h) to evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee;
- i) to meet regularly with the external auditor, including at the planning stage before the audit and after the audit at the reporting stage;
- j) to review and approve the annual audit plan to ensure that it is consistent with the scope of the audit engagement;
- k) to review the findings of the audit with the external auditor.
- l) the Committee shall also:
  - i. review any representation letters(s) requested by the external auditor before they are signed by management; and
  - ii. review the management letter and management's response to the auditor's findings and recommendations.

### **3.5 Climate Related Financial Disclosures and Sustainability Oversight and Reporting**

The Group will make relevant climate-related financial disclosures within the section of the Social Value and Sustainability Information Report in accordance with applicable law.

The Committee shall:

- a) oversee the TCFD reporting process and ensure that climate-related risks are adequately considered, disclosed and reported to the Board.
- b) review and recommend to the Board the approval and adoption of the Social Value and Sustainability Report (or equivalent Report by any other name);
- c) put the assurance contract for the Social Value and Sustainability Report out to tender at such intervals as the Committee determines and to develop and oversee the selection process in respect of such tender; and
- d) approve the terms of engagement and appointment of an assurance provider of the Social Value and Sustainability Report and determine their remuneration.

### **3.6 Other Matters**

The Committee shall:

- a) review and oversee operation of the arrangements for colleagues to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters (whistleblowing). Ensuring that those arrangements allow proportionate and independent investigation of such matters, appropriate follow-up, and appropriate protection for individuals making proper disclosures (whistleblowers). The Committee shall routinely report such arrangements to the Board;
- b) ensure there are appropriate procedures and processes in place to enable compliance with the Modern Slavery Act 2015;
- c)
- d) undertake similar duties as are set out in these Terms of Reference with respect to any relevant entities which are members of the Group, to the extent that the terms of reference of the relevant committees of such entities already cover such duties. The Committee may request such reports and presentations as it deems necessary from all relevant subsidiaries, particularly in circumstances where any risks across the Group are required to be monitored; prepare and approve for inclusion in the Annual Report and Accounts a report describing the work of the Committee in discharging its responsibilities, including:
  - the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;
  - an explanation of how the Committee has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted; an explanation of how auditor objectivity and independence is safeguarded.
  - a summary of the purpose and mandate of Internal Audit, the function's main activities and conclusion on Internal Audit's impact and effectiveness.
- e) consider an annual review of the management of the pension schemes, with specific regard to:
  - i. The Pensions Strategy;
  - ii. Funding cost projections;
  - iii. Risk management; and
  - iv. Governance.

#### **4. Delegation of authority**

The Committee may delegate any or all of its responsibilities to a sub-committee, or an individual Committee member (i.e. the Committee Chair).

#### **5. Membership**

- a) Members of the Committee shall be appointed by the Board in accordance with the Co-operative Group Limited Rules.
- b)
- c) The Committee shall comprise at least three members, including the Committee Chair, chosen by the Board on the recommendation of the Nominations Committee. The Chair of the Board shall not be a member of the Committee. At least one member of the Committee must have relevant and recent financial experience and the Committee as a whole shall have competence relevant to the Group's business. All members should have relevant skills and experience in one or more of the following

areas:

- i. a strong grasp of key financial reporting and accounting issues, such as revenue recognition, financial instruments, accounting policies, treatment of executive compensation, pensions and other benefits; and/or
  - ii. a sound understanding of operational and internal controls, with particular emphasis on IT, anti-fraud provisions, risk management and assessment.
- d)
- e) The Board shall be entitled to terminate the membership of any member of the Committee at any time whether for cause or where otherwise appropriate or expedient to do so.
- f) In the absence of the Committee Chair, the members present at a duly convened and quorate meeting of the Committee shall elect one of their number to Chair the meeting.

The Group Secretary, or their nominee, shall be the secretary of the Committee.

## **6. Meetings**

- a) The Committee shall meet at such times as the Committee Chair shall require.
- b) The quorum of the Committee shall be three members of the Committee, present in person, by telephone or other electronic communications, provided that one of those members satisfies the requirement for relevant and recent financial expertise.
- c) A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
- d) A resolution which is signed or approved by all the Committee members entitled to vote on that resolution shall be as valid and effectual as if it had been passed at a Committee meeting duly constituted. The resolution may be contained in one document or communication in electronic form or in several documents, each signed or approved by one or more of the Committee members concerned. Approval may be given in hard copy form or in electronic form. There shall be excluded from the requirement that all Committee members sign or approve a resolution any member of the Committee who is absent from the United Kingdom unless the Committee member has provided an address (including any electronic address) at which they may be contacted in their absence.
- e) Only members of the Committee shall have the right to attend Committee meetings. The Committee may, however, invite such other attendees as it deems necessary or appropriate to enable it to discharge its responsibilities as set out in these Terms of Reference.
- f) At the invitation of the Committee Chair, the following shall be in regular attendance for all or part of the meeting:
  - i. The Chief Executive;
  - ii. The Chief Financial Officer;
  - iii. The Director of Risk and Internal Audit ; and
  - iv. Representatives of the external auditor.

In addition, other Co-op leaders may be invited as and when required.

- g) It is expected that the external audit lead partner will regularly attend meetings. At least once a year, the Committee shall meet with the external and internal auditors, without management, to discuss matters relating to its remit and any issues arising

from the audit.

- h) Notice of each meeting confirming the venue, date and time together with an agenda of items to be discussed and supporting papers where appropriate will normally be provided to each member of the Committee no later than seven clear days prior to the date of the meeting. All reasonable efforts shall be made to give notice of meetings of the Committee to all members of it and to arrange such meetings so that members are able to attend them.
- i) Outside of the formal meeting cycle, the Committee Chair shall maintain a dialogue with key individuals involved in the Group's governance, including the Chair of the Board, the Chief Executive, the Chief Financial Officer, the Director of Risk and Internal Audit and the external audit lead partner.
- j) In the event of an equality of votes, the Committee Chair shall have a casting vote.
- k) The secretary of the Committee shall prepare minutes of any meeting of the Committee, including the names of those present and in attendance, and, after approval by the Committee Chair, shall circulate the minutes to all members of the Committee and to all other members of the Board, unless it would be inappropriate to do so.

## **7. Governance and Resourcing**

- a) In addition to the services of the secretary of the Committee, the Committee shall be provided with access to sufficient resources in order to carry out its duties effectively (including internal and/or external assistance as required).
- b) The Committee is authorised by the Board to obtain outside legal, accounting or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise, if it considers this necessary, at the Group's expense. The Committee shall have access to the external auditor as required.
- c) The Committee is authorised to seek any information it requires from any officer, colleague, contractor or advisor of the Group in order to perform its duties.
- d) These Terms of Reference shall be made public and a copy of the current version of these Terms of Reference shall be published on the Group's external website.

## **8. Reporting**

- a) The Committee Chair shall report formally to the Board on its proceedings after each meeting and highlight issues with any such recommendations to the Board as the Committee may determine.
- b) The external auditor shall issue a written report to the Board, on the financial and half year end process and any issues they wish to bring to the Boards attention.
- c) The Committee Chair shall be available to answer questions about the Committee's activities at the Annual General Meeting and, where applicable, the Half Yearly General Meeting.