

CO-OPERATIVE GROUP LIMITED

RISK AND AUDIT COMMITTEE

(“RAC” or “Committee”)

Terms of Reference

(as approved by the Board of Co-operative Group Limited on 31 January 2018)

1. SCOPE

This document sets out the Terms of Reference of the RAC of Co-operative Group Limited (the **Society**). The RAC is a committee of the Society’s Board (the **Group Board**) established in accordance with Rule 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 Society’s Rules (the **Rules**).

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 management 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 consistency of, or appropriateness of any changes to, accounting policies applied by the Group, from year to year;
 - (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 auditors;
 - (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, and any public statements with respect to the Society or any of its subsidiaries being a going concern, exercising judgement in considering those matters that inform the assessment of whether the Society or any of its subsidiaries is a going concern, and to make appropriate recommendations in that regard to the Group Board;
- (c) to review the content of the Group's Annual Report and Accounts and to advise the Group 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 Group 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 Group's Executive management for compliance with regulatory and financial reporting requirements and with the requirements of the Group's regulators;
- (f) to assist the Group Board by reviewing and, as appropriate, recommending any returns required to be submitted to any relevant regulatory body;
- (g) where the Committee is not satisfied with any aspect of any proposed financial reporting by the Group and is unable to resolve such matters with the Group's Executive management, the Committee shall report its views to the Group Board;
- (h) 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, as thought fit by the Committee and that a summary of the GSCOP Compliance Officer's annual report to the Groceries Code Adjudicator is included in the Group's Annual Report and Accounts.

3.2 Internal Controls

- (a) to keep under review the adequacy and effectiveness of the Group's internal financial controls and internal control system, as well as the processes for monitoring their effectiveness;
- (b) to monitor any significant deficiencies or material weakness in the Group's controls and/or disclosure controls and procedures, as identified by Group Internal Audit and/or the Group's external auditors, and the implementation by management of appropriate remedial actions;

- (c) to review and approve statements to be included in the Annual Report and Accounts concerning risk management and internal control;
- (d) in reviewing the effectiveness of internal controls, to consider:
 - (i) the scope and quality of the systems of internal control and, where applicable, the work of Group Internal Audit or other providers of assurance;
 - (ii) the extent and frequency of reporting to the Group Board;
 - (iii) the effectiveness of the Group's external reporting processes;
 - (iv) the adequacy and effectiveness of the Group's financial crime and fraud reporting systems and the Group's systems and controls for the prevention of bribery; and
 - (v) any changes in the nature and extent of material risks facing the Group, and the Group's ability to respond to changes in its business and/or the external environment.

3.3 Internal Audit

- (a) to ensure that the Director of Internal Audit has direct access to the Group Chair and the Chair of the Committee (the **Committee Chair**) and is accountable to the Committee;
- (b) to monitor and evaluate the performance of the Group's Internal Audit function in the context of the Group's overall risk management systems and wider regulatory and legislative requirements;
- (c) to approve the appointment and removal of the Director of Internal Audit (including making recommendations in terms of their remuneration);
- (d) to participate in setting the objectives of the Director of Internal Audit;
- (e) to consider and approve the remit of the Group Internal Audit function and ensure it has adequate resources and appropriate access to information to 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;
- (f) to put safeguards in place limiting impairments to independence or objectivity where the Director of Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing;
- (g) to review, assess and approve the annual Internal Audit plan for recommendation to the Group Board ensuring it is aligned to the key risks of the Group's business.

- (h) to review and monitor significant findings from major investigations, including those arising from the Group's whistleblowing policy and management's response to such matters;
- (i) to review and monitor management's responsiveness to the issues contained in audit reports, including the timely completion of management actions ;
- (j) to determine whether it is satisfied that the quality, experience and expertise of the internal audit function is appropriate for the Group;
- (k) to obtain an independent external assessment of the Group's 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 put the Group's external audit services contract out to tender at such intervals as the Committee determines and oversee the selection process in respect of such tender;
- (b) 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;
- (c) to conduct an annual review of the effectiveness of the external auditors and of the audit process;

approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

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;

- (c) consider and make recommendations to the Group Board, to be put to Members for approval, in relation to the appointment, re-appointment and removal of the Group's external auditor;
- (d) if an external auditor resigns, to investigate the issues leading to this and decide whether any action is required;
- (e) to oversee the relationship with the Group's external auditor including (but not limited to):

satisfying itself that there are no relationships between the auditor and the Group which could adversely affect the auditor's independence or objectivity;

agreeing a policy on the employment of former colleagues of the Group's auditor, and monitoring implementation of this policy;

the development and implementation of a formal 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 (i.e. the Committee Chair) 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.

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;

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 its own internal quality procedures; and

seeking to ensure co-ordination with the activities of the Group's Internal Audit function;

- (f) 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;
- (g) to meet regularly with the external auditor, including at the planning stage before the audit and after the audit at the reporting stage;
- (h) to review and approve the annual audit plan to ensure that it is consistent with the scope of the audit engagement;
- (i) to review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
 - (i) a discussion of any major issues which arose during the audit;
 - (ii) any accounting and audit judgements;
 - (iii) levels of errors identified during the audit; and
 - (iv) the effectiveness of the audit

the Committee shall also:

review any representation letters(s) requested by the external auditor before they are signed by management; and

review the management letter and management's response to the auditor's findings and recommendations.

3.5 Risk

- (a) to oversee the development, implementation and maintenance of the Group's overall risk management framework and its risk appetite, strategy, principles and policies, to ensure they are in line with emerging regulatory, corporate governance and industry best practice;
- (b) to oversee the Group's risk exposures, risk/return and proposed improvements to the Group's risk management framework and its risk appetite, strategy, principles, policies and standards;
- (c) to provide formal sign-off for the Group Board Risk Report and/or other risk related sections within the Group's Annual Report and Accounts;
- (d) to facilitate the effective contribution and involvement of all members of the Group Board and aid their understanding of risk issues and the Group's risk management framework;
- (e) to receive and interrogate quarterly reports from the Executive Risk Committee, identifying, classifying and describing the prevailing management of the most significant risks to the Group;
- (f) to provide input to the Remuneration Committee, as requested by that committee, on the alignment of remuneration to risk performance;
- (g) to review new risk principles and policy and material amendments to risk principles and policy recommended for approval by the Group Board;
- (h) to oversee adherence to Group risk principles, policies and standards and any action taken resulting from material policy breaches across the Group;
- (i) to review and discuss with the Group's Chief Risk Officer the scope of work of the Group's Risk Function, its plans, the issues identified as a result of its work, how management is addressing these issues and the effectiveness of systems of risk management;
- (j) to review the adequacy of the resources of the Group's Risk Function and its authority and standing within the Group;
- (k) to review co-ordination between Group's Risk Function and the external auditors; and
- (l) to oversee adherence to Group Health and Safety principles, policies and standards and any action taken resulting from material breaches across the Group.

3.6 Sustainability Reporting

To receive, review and recommend to the Group Board the approval and adoption of the Co-op Way Report (and any replacement of this Report).

To put the assurance contract for the Group's Co-op Way Report out to tender at such intervals as the Committee determines and to develop and oversee the selection process in respect of such tender.

To approve the terms of engagement and appointment of an assurance provider of the Group's Co-op Way Report and determine their remuneration.

3.7 Other

- (a) To establish a charter for the effective operation of the Committee including its interaction with management to ensure that the Committee receives the information it requires for the effective discharge of its duties;
- (b) The Committee shall review and oversee operation of the arrangements for the Group's colleagues to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters (whistleblowing). The Committee shall ensure that those arrangements allow proportionate and independent investigation of such matters, appropriate follow-up, and appropriate protection for individuals making proper disclosures (whistleblowers);
- (c) The Committee shall ensure there are appropriate procedures and processes in place to enable compliance with the Modern Slavery Act 2015.
- (d) Undertake similar duties as are set out in these Terms of Reference with respect to any relevant subsidiaries of the Society, with the exception of CIS General Insurance Limited (**CISGIL**) and Reclaim Fund Limited, 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 the Society is required to monitor any risks across the Group;
- (e) Prepare and approve for inclusion in the Group's 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 Group's financial statements and how these issues were addressed;

An exploration of how the Committee has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the Group's 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.

- (f) To receive and consider an annual review of the management of the pension schemes within the Group, 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, including one established solely for that purpose.

5. MEMBERSHIP

- 5.1 Members of the Committee shall be appointed by the Group Board in accordance with the Rules.
- 5.2 The Committee shall comprise at least three members, including the Committee Chair, chosen by the Board on the recommendation of the Nominations Committee as the most suitably qualified from amongst the Member Nominated Directors and Independent Non-Executive Directors. The Group Chair shall not be a member of the Committee.
- 5.3 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:
 - (a) 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
 - (b) a sound understanding of operational and internal controls, with particular emphasis on IT, anti-fraud provisions, risk management and assessment.
- 5.4 The Group 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.
- 5.5 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.
- 5.6 The Group Secretary, or his or her nominee, shall be the secretary of the Committee.

6. MEETINGS

- 6.1 The Committee shall meet at such times as the Committee Chair shall require.
- 6.2 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.
- 6.3 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.
- 6.4 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 he or she may be contacted in his/her absence.
- 6.5 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 the Terms of Reference.
- 6.6 At the invitation of the Committee Chair, the following shall be in regular attendance for all or part of the meeting:
- (a) The Group Chief Finance Officer;
 - (b) The Chief Risk Officer;
 - (c) The Director of Internal Audit; and
 - (d) Representatives of the Group's external auditors.
- In addition, other members of the Group Executive shall be invited by the Committee Chair, and shall be expected to attend meetings frequently.
- 6.7 It is expected that the external audit lead partner will be invited regularly to attend meetings, as well as the Group Chief Finance Officer. 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.
- 6.8 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.

- 6.9 In the event of an equality of votes, the Committee Chair shall have a casting vote.
- 6.10 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 Group Board, unless it would be inappropriate to do so.

7. GOVERNANCE AND RESOURCING

- 7.1 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).
- 7.2 The Committee is authorised by the Group 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 auditors as required.
- 7.3 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.
- 7.4 These Terms of Reference (as amended, if appropriate), 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

- 8.1 The Committee Chair shall report formally to the Group Board with respect to the Committee's proceedings and highlight issues with any such recommendations to the Group Board as the Committee may deem appropriate.
- 8.2 The external auditor will issue a written report to the Board, on the financial and half year end process and issues which will be circulated in advance of the Board Meeting at which the external auditor will be in attendance.
- 8.3 The Committee Chair shall be available to answer questions about the Committee's activities at the Society's Annual General Meeting and Half Yearly Meeting.