

## **Appendix 7**

### **Audit Committee - Terms of Reference**

#### **1. Membership**

- 1.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee and in consultation with the Chairman of the Audit Committee. The Committee shall be made up of at least three members, all of whom shall be independent non-executive directors and at least one of whom shall have recent and relevant financial experience and be competent in accounting and/or auditing. The Chairman of the Board shall not be a member of the Committee.
- 1.2 Only members of the Committee have the right to attend Committee meetings. However, the external auditor and the Chief Financial Officer will be invited to attend meetings of the Committee on a regular basis and other individuals such as the Financial Controller and the Director of Risk and Internal Audit may be invited to attend for all or part of any meeting, as and when appropriate.
- 1.3 Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods provided that the Committee members remain independent.
- 1.4 The Board shall appoint the Committee Chairman who shall be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

#### **2. Secretary**

- 2.1 The Company Secretary or his/her nominee shall act as the Secretary of the Committee.

#### **3. Quorum**

- 3.1 The quorum necessary for the transaction of business shall be two. Attendance may be either in person or by telephone or video conferencing facility. 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.

#### **4. Frequency of Meetings**

- 4.1 The Committee shall meet at least three times a year at appropriate times in the Group reporting and audit cycle and at such other times as required.

#### **5. Notice of Meetings**

- 5.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or at the request of external auditors if they consider it necessary.
- 5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and any other person required to attend no later than three working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time.

**6. Minutes of Meetings**

- 6.1 The Secretary shall minute the proceedings and resolutions of all Committee meetings, including recording the names of those present and in attendance.
- 6.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.3 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless a conflict of interest exists.

**7. Annual General Meeting**

- 7.1 The Chairman of the Committee shall attend the Annual General Meeting and be prepared to respond to any shareholder questions on the Committee's activities.

**8. Duties**

The Committee shall carry out the duties below for the parent company, major subsidiary undertakings and the Group as a whole, as appropriate.

**8.1 Financial Reporting**

8.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary and interim results announcements and any other formal announcements relating to significant changes in expectations of financial performance, reviewing significant financial reporting issues and/or judgements which they contain. The Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature. In the absence of significant changes in expectations, it is not envisaged that the Committee's prior approval to interim management statements will be required.

8.1.2 The Committee shall review and challenge where necessary:

- the consistency of, and any changes to, compliance with accounting policies both on a year on year basis and across the Group;
- the methods used to account for significant or unusual transactions where different approaches are possible;
- whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditors;
- the clarity of disclosure in the Company's financial reports and the context in which statements are made;
- all material information presented with the financial statements, such as the Strategic Report and the Directors Report;
- the going concern statement or assumption (and any supporting work or report in connection with such statement or assumption), or any contrary statement or assumption (and any supporting work or report in connection with that contrary statement or assumption) proposed as the basis of the Company's (or its Group's) financial statements; and

- any material written communication (including email) between the auditors and the Company.

8.1.3 The Committee shall review the annual financial statements of the pension schemes where not reviewed by the Board as a whole.

## 8.2 Internal Controls and Risk Management Systems

The Committee shall:

8.2.1 keep under review the effectiveness of the Company's internal controls and risk management systems; and

8.2.2 review and approve the statements to be included in the annual report concerning internal controls and risk management.

## 8.3 Whistleblowing and Fraud

The Committee shall:

8.3.1 review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action; and

8.3.2 review the Company's procedures for detecting fraud.

## 8.4 Internal Audit

The Committee shall:

8.4.1 monitor and review the effectiveness of the Company's Internal Audit Department in the context of the Company's overall risk management system;

8.4.2 approve the appointment and removal of the head of the Internal Audit Department;

8.4.3 consider and approve the remit of the Internal Audit Department 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 department has adequate standing and is free from management or other restrictions;

8.4.4 review and assess the annual internal audit plan;

8.4.5 review promptly all reports on the Company from the Internal Auditors;

8.4.6 review and monitor management's responsiveness to the findings and recommendations of the Internal Auditor; and

8.4.7 ensure the Head of Internal Audit has the right of direct access to the Chairman of the Board and to the Chairman of the Committee.

## 8.5 External Audit

The Committee shall:

8.5.1 consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditors;

- 8.5.2 ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information any individuals during the duration of the tendering process;
- 8.5.3 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 8.5.4 oversee the relationship with the external auditors including (but not limited to):
- approval of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate for the scope of work undertaken;
  - 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 professional and regulatory requirements and the relationship with the auditors as a whole, including the provision of any non-audit services;
  - satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditors and the Company (other than in the ordinary course of business);
  - agreeing with the Board, a policy on the employment of former employees of the Company's auditors, then monitoring the implementation of this policy;
  - monitoring the auditors compliance with relevant ethical and professional guidance in the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
  - assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditors on their own internal quality procedures;
  - seeking to ensure co-ordination with activities of the Internal Audit department; and
  - considering the risk of withdrawal of the Company's present auditor from the market;
- 8.5.5 meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditors at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- 8.5.6 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;

8.5.7 review the findings of the audit with the external auditors. This shall include, but not be limited to, the following:

- a discussion of any major issues which arose during the audit;
- any accounting and audit judgements; and
- levels of errors identified during the audit;

8.5.8 continually review the effectiveness of the audit process with a specific review undertaken at the end of the annual cycle;

8.5.9 review any representation letter(s) requested by the external auditors before they are signed by management;

8.5.10 review the management letter and management's response to the auditors' findings and recommendations; and

8.5.11 develop and implement a policy on the supply of non-audit services by the external auditors, taking into account any relevant ethical guidance on the matter.

## **9. Reporting Responsibilities**

9.1 The Committee Chairman shall report formally to the Board on its proceedings as appropriate on all matters within its duties and responsibilities.

9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

9.3 The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report. The report should include an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor; and all other information requirements set out in the UK Corporate Governance Code.

9.4 The Chairman of the Committee shall consider for approval the annual report on compliance with the Groceries Supply Code of Practice and summary to be included in the Company's annual report.

## **10. Other**

The Committee shall:

10.1 at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval;

10.2 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;

10.3 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;

10.4 give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules as appropriate;

10.5 be responsible for co-ordination of the internal and external auditors;

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- 10.6 oversee any investigation of activities which are within its terms of reference;  
and
- 10.7 work and liaise as necessary with all other Board committees.

**11. Authority**

The Committee is authorised by the Board:

- 11.1 to seek any information it requires from any employee of the Group in order to perform its duties;
- 11.2 to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference;
- 11.3 to instigate, at the Company's expense, special projects or investigations relating to any matters within its terms of reference; and
- 11.4 to call any employee to be questioned at a meeting of the Committee as and when required.