Audit Committee Report

Committee Chair

Ian Dyson

Members

Mai Fyfield
Karen Geary
Luke Jensen
Eugenia Ulasewicz

Responsibilities

The Committee's principal responsibilities are to:

- Monitor the integrity of ASOS' financial statements in relation to the Group's financial performance.
- Review the effectiveness of the internal and external audit processes.
- Review the effectiveness of the Group's financial and internal controls, including the process for the evaluation, assessment and management of risk.

Terms of Reference

The full Terms of Reference for the Committee, which are reviewed and approved annually, are available on our corporate website, asosplc.com. They were last reviewed on 7 October 2021.

Committee attendance

Committee member	Role	Attendance record
Ian Dyson	Committee Chair	4/4
Mai Fyfield	Non-executive Director	4/4
Karen Geary	Non-executive Director	4/4
Luke Jensen	Non-executive Director	4/4
Eugenia Ulasewicz	Non-executive Director	4/4

Audit Committee Chair's statement

The Committee continues to play a key role in supporting the Board in fulfilling its corporate governance responsibilities including monitoring the Group's financial reporting practices, reviewing the effectiveness of the Internal and External Audit functions, risk management framework and cyber security. This report provides an overview of how the Committee operates, the Committee's activities during the year and key focus for the year ahead.

As well as the 'business as usual' items, the Committee continued to focus on the impact of the COVID-19 pandemic on the business, including protecting the health and safety of employees and colleagues, monitoring the Group's financial performance, new and emerging risks, and our business continuity and resilience. The Committee also carried out work to ensure that we continue to effectively protect workers in our sourcing supply chain, reviewed the accounting that was applied to the Group's acquisition of the Topshop brands, oversaw the enhancements to our whistleblowing policy, processes and improved reporting to the Committee, and mandated and oversaw the formal 'in-housing' and development of ASOS' Internal Audit function.

The Committee's priorities for the next financial year will include:

- Monitoring the development of ASOS' Internal Audit function
- Monitoring the progress of the BEIS Governance Reform
- Continued focus on cyber security

Committee membership and activities

The members of the Committee are independent Non-executive Directors who possess the necessary depth of financial and commercial expertise to fulfil their role. Detailed information on the experience, skills and qualifications of all Committee members can be found on pages 46 to 47. The Board is satisfied that the Committee Chair, Ian Dyson, has recent and relevant financial experience for the purposes of satisfying the UK Corporate Governance Code. As previously announced, Ian Dyson will be appointed as Chair of the Board with effect from 29 November 2021 for a three-year term. We are well-progressed with our search for a new Non-executive Director to replace Ian as Chair of the Audit Committee, but while that search is finalised, Ian will retain this role in the short term.

Although not members of the Audit Committee, the Board Chair, Executive Directors, General Counsel & Company Secretary, and the newly appointed Director of Group Finance and Director of Internal Audit & Risk are also invited to attend meetings, unless they have a conflict of interest. Other senior members of the business are invited to attend meetings as appropriate.

The Committee has engaged the following external advisors to help it meet its responsibilities, both of whom are invited to attend Committee meetings unless they have a conflict of interest: PricewaterhouseCoopers LLP (PwC) act as External Auditors to ASOS and Deloitte LLP provide co-source support to our Internal Audit function. The Audit Committee Chair and members regularly meet with both the External and Internal Auditors, without the Executive Directors or members of the Finance team being present, to ensure that open lines of communication exist. ASOS also receives advice as needed from KPMG, EY and Slaughter and May LLP on tax and legal issues relating to corporate matters.

The Committee met four times during the year and the attendance by members at Committee meetings can be seen on page 55. The Committee works to a structured programme of activities and meetings to coincide with key events around our financial calendar and, on behalf of the Board, to provide oversight of the Group's risk management processes. Following each meeting, or whenever it may be appropriate, the Committee Chair reports on the main discussion points and findings to the Board and the Board has access to the Committee's papers.

Financial reporting	– Reviewed the Annual Report and Accounts, including whether they were fair, balanced and understandable, the material judgements and estimates, going concern and viability statements. – Considered the External Auditor's report on the full- and half-year results. – Reviewed the full- and half-year results announcements. – Reviewed the accounting treatment for the acquisition of the Topshop, Topman, Miss Selfridge and HIIT brands, our strategic partnership with Nordstrom and the convertible bonds issue.
External audit	– Appraised the effectiveness and performance of our external auditors, assessed their independence and objectivity, and recommended their reappointment. – Considered the external audit fees and terms of engagement. – Reviewed the non-audit services and fees of the external auditor.
Risk and internal controls	– Ensured that effective controls, processes, assessments and mitigations were maintained during lockdowns as a result of the COVID-19 pandemic, including the continued operation in our fulfilment centres and Head Office Studios and the reopening of our Customer Care site. – Monitored the Group's Risk Register, including the completeness of the process to identify the Group's principal and emerging risks and movements in such exposures, particularly in relation to new and emerging risks connected to the COVID-19 pandemic. – Reviewed the effectiveness of the Group's risk management and internal control systems. – Approved an updated Non-Audit Services Policy. – Received updates on material litigation. – Approved a new Whistleblowing Policy and escalation matrix and reviewed updates on whistleblowing matters. – Approved the updated Group Gifts & Hospitality Policy and considered reports on the Group's execution of the Policy.
Internal audit	– Monitored and reviewed the effectiveness and independence of the Internal Audit function. – Oversaw the creation of an in-house Internal Audit function. – Reviewed internal audit reports and monitored the implementation of internal audit recommendations.
Other matters	– Appraised the Group's Ethical Trade Initiatives, audit process and risk management, to ensure continued protection of workers' rights within ASOS' supply chain. – Reviewed the remedial steps taken by the People team to address issues identified in the 2019 audit with the Group's recruitment and leaver process, which identified a number of priority findings and recommended actions. – Approved revised Terms of Reference for the Committee. – Received updates on tax matters and approved the Group's Tax Strategy. – Reviewed progress with Business Continuity planning. – Reviewed the robustness of the cyber security processes and systems and the work of the Cyber Security team. – Considered the BEIS white paper on governance reform, the company's formal response to the consultation and the proposed roadmap to compliance.

Committee performance

During the year, the Board appointed an external organisation, Lintstock, to perform an independent review of the Board and its Committees. More information on this can be found in the Corporate Governance Report on page 54. As part of this review, the performance of the Committee and its Chair was evaluated. The outcome of the review was that the Committee was operating effectively and had the necessary level of expertise and independent challenge to continue to operate effectively.

Financial reporting

The Committee's primary responsibility in relation to the Group's financial reporting is to review, with management and the External Auditor, the quality and appropriateness of the full- and half-yearly financial statements. The Committee focuses on the quality of accounting policies and practices, the appropriateness of underlying assumptions, judgements and estimates made by management, key audit matters identified by the external auditor, the clarity of the disclosures and compliance with financial reporting standards, an assessment of whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, and advising the Board on the form and basis underlying the long-term Viability Statement. The Committee received reports from management in relation to the identification of critical accounting judgements, significant accounting policies and proposed disclosures of these in this Annual Report.

The Committee has discussed areas of risk with the auditors and agreed for the following areas of heightened risk to be reviewed and assessed in the audit of ASOS' performance in the financial year to 31 August 2021:

- Capitalisation of costs may not be appropriate: given the high level of internal development of software there is a risk that staff costs are inappropriately capitalised.
- Revenue may not be correctly recorded: as revenue is recognised on despatch and the returns provision is based on estimates there is a risk that revenue may not be accurately recorded.
- Inventory not recorded correctly: having regard to the significant level of inventory holdings in both the UK and overseas warehouses, and the fast-moving nature of the fashion market, there is an increased risk that the closing inventory is not accurately recorded or that the inventory provisioning is not complete in the financial statements.
- Valuation of assets and liabilities acquired in a business combination: determining the fair value of assets acquired and the completeness of liabilities associated with the acquisition.
- Consideration of the impact of COVID-19: given the significance of the impact of COVID-19 on the global economy, customer behaviours and associated cash flows, the carrying amount of assets and projected future cash flows in the context of going concern and impairment assessments.

The Committee reviewed the appropriateness of management's accounting in relation to each of these significant risks and PwC reported to the Committee on the work performed in assessing each during their audit. Details of this work are provided in PwC's Audit Report on pages 88 to 94.

Significant financial statement reporting issues

Significant issue or judgement	How the issue was addressed
Topshop brands acquisition: In February 2021, ASOS.com acquired a number of business assets relating to the Topshop, Topman, Miss Selfridge and HIIT brands, including the trademark rights, registered designs, domain names, social media handles and exclusive IP licences, in addition to its wholesale business and relevant employees.	The Committee reviewed the accounting treatment of the acquisition at half-year and full-year. The acquisition was deemed a business combination and was therefore accounted for using the acquisition method under IFRS 3 'Business Combinations'. The Committee considered management's key accounting judgements made in relation to the transaction, including the fair value and useful economic lives of brand intangibles, acquired stock, potential contingent liabilities, goodwill generated and deferred tax liability arising on customer relationships. The Committee requested that PwC provide an overview of their view of the transaction and the accounting judgments at half-year and full-year. The Committee were satisfied with the process that PwC had taken and that the appropriate accounting treatment and judgements had been applied.
Convertible bonds: In April 2021, the Company issued £500m of convertible bonds with a term period of five years. Convertible bonds are examples of convertible debentures and are accounted for under the 'split equity method' as in substance they consist of both equity and debt portions. To facilitate the completion of the transaction, the Group incorporated a new entity in Jersey.	The Committee reviewed management's proposed accounting treatment within the new Jersey entity and how it will impact the Company, ASOS.com Limited and the Group as a whole, including the tax impact. The Committee has ensured that appropriate steps have been taken to ensure that the proposed accounting follows the terms outlined in the bondholder agreement. The Committee also approved the introduction of a new accounting policy for convertible bonds, which outlines how the bonds are classified and how the fair value is calculated.

Significant issue or judgement	How the issue was addressed
Inventory valuation: As at 31 August 2021 the Group were holding £783.5m gross stock against which a provision has been recognised of £40.4m.	The Committee considered the Group's provisioning policy applied and reviewed a management paper setting out the key judgements made in respect of inventory provisions, including the ongoing impact of COVID-19 on trading. The Committee also reflected on the results of PwC's work on inventory, which included a review of the provisions held. The Committee concluded that the methodology for calculating the net realisable values of inventories, including management's judgements on provisions, was balanced and appropriate.
Refund accruals: At 31 August 2021 the accrual for net refunds totalled £58.7m.	The Committee have assessed the assumptions used by management to determine the refund accrual to be recognised, in addition to the right to return asset included within inventory. Over the last 12 months there has been significant volatility in the volume of returns being received from customers, driven by COVID-19's impact on consumer behaviour and sentiment. The second half of FY 2021 has seen a normalisation of underlying returns rates as restrictions ease globally. The Committee reflected on the results of PwC's work on revenues, which included a review of the provisions held. The Committee concluded that the judgements made by Management in calculating the provisions required were reasonable.
Depreciation of property, plant and equipment and amortisation of other intangible assets: In February 2021 the Group acquired brand and customer relationship assets from the Arcadia Group. Intangible assets included brands of £219.4m relating to Topshop, Topman, Miss Selfridge and HIIT and reflected their fair value at the acquisition date. They were estimated to have a useful economic life of between 10 and 30 years. Also acquired were wholesale customer relationships with a fair value of £24.4m, which were estimated to have a useful economic life of eight years.	Property, plant and equipment and other intangible assets are depreciated/amortised on a straight-line basis over their useful economic lives. Management reviews the appropriateness of assets' useful economic lives at least annually – any changes could affect prospective depreciation/amortisation rates and asset carrying values. The Committee was satisfied that there was appropriate oversight and challenge applied in the review of the appropriateness of existing UELs (useful economic life). During the year the Group acquired brand and customer relationship assets from the Arcadia Group for which there was significant judgement involved in determining the UELs. Management carried out market benchmarking and sought guidance from advisers to validate the conclusions reached. The Committee, having consulted with Deloitte and J.P Morgan, concurred with the judgements made by Management and was satisfied that the UELs for the acquired assets were appropriate.

Regulators and our financial reporting

In May 2021, the Corporate Reporting Review department of the Financial Reporting Council (FRC) advised that our Annual Report for the year ended 31 August 2020 had been subject to their review and explanations were requested on certain accounting and disclosure matters. The FRC requested a formal response on the following areas:

- the way in which revenue from brand and collaboration sales is recognised;
- the way in which revenue in respect of delivery receipts is recognised;
- the way in which sales returns are recognised and measured; and
- the various sources of estimation uncertainty within the financial statements.

Our responses were accepted by the FRC and their review was closed in June 2021. As part of our response, we committed to enhancements to our disclosures which are reflected within this Annual Report.

External audit

The Committee has primary responsibility for overseeing the relationship with the External Auditors, PwC. This includes monitoring and reviewing their objectivity and independence on an ongoing basis, recommending their appointment, reappointment and removal, and approving the scope of the statutory audit and fees. PwC presented to the Committee its detailed audit plan for the 2021 financial year, which outlined its audit scope, planning materiality and its assessment of key audit risks. The Committee also received reports from PwC on its assessment of the accounting and disclosures in the financial statements and financial controls.

PwC presented its proposed audit plan to the Committee for discussion with the objective to ensure that the focus of its work remained aligned to the Group's strategy. The Committee is keen to ensure that its auditor feels able to challenge management and is afforded all the access it requires to report on matters that may not be part of the statutory audit but which, in the opinion of the auditor, should be brought to the attention of the Audit Committee. PwC is afforded such access through attendance at each Committee meeting, supported by other meetings held during the year with the Committee Chair without management present. When carrying out its statutory audit work, PwC also has access to a broader range of employees and different parts of the business. If it picks up any information as part of this process, it would report to the Audit Committee anything that it believes the Committee should know in order to fulfil its duties and responsibilities. As audit partner, Andrew Latham is authorised to contact the Committee Chair directly at any time to raise any matter of concern.

The fees paid to PwC for the financial year to 31 August 2021 were £390,000 (2020: £420,325). This consisted of £316,000 for audit services. The Committee reviewed and discussed the fee proposal and was engaged in agreeing audit scope. To help safeguard PwC's objectivity and independence, the Board has a formal policy on non-audit services, which was updated and approved during the year, which sets out the circumstances in which PwC may be permitted to provide certain non-audit services, subject to appropriate approval. Proposals for all non-audit services above £50,000 must be approved by the Audit Committee Chair (and if over £250,000, the Audit Committee Chair and one other Audit Committee member) before being carried out, and PwC may only provide such services if their advice does not conflict with their statutory responsibilities and ethical guidance. When reviewing requests for permitted non-audit services, the Audit Committee representatives will assess the nature of the non-audit services, whether the skills and experience make the auditor the most suitable supplier of the non-audit service, whether the provision of such services impairs the auditor's independence or objectivity, whether there are safeguards in place to eliminate or reduce to an acceptable level any threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the external auditor and the fee to be incurred for non-audit services, both for individual non-audit services and in aggregate, relative to the Group audit fee. Independence and objectivity of the External Auditors is the key priority and the Company would not enter a situation where there could be a reduced level of independence with regards to the external audit; either perceived or actual. The total fees for non-audit services paid to PwC during the year were £74,000. The services provided relate to PwC's half year review of our interim results. The total fees represented 18.9% of the Group audit fee payable to PwC during the year.

The Committee undertakes an assessment of the quality, effectiveness, objectivity and independence of the audit provided by PwC each year, seeking the views of the Board. The Committee had regard to PwC's confirmation that it maintains appropriate internal safeguards in line with applicable professional standards, fulfilment of the agreed external audit plan, the content, insights and value of their reports to the Committee, robustness and perceptiveness of the External Auditor in their handling of key accounting and audit judgements, the policies we have in place to safeguard PwC's independent status, including our Non-Audit Services Policy, and the tenure of the audit engagement partner not being greater than five years. Based on this assessment, the Committee concluded that there had been appropriate focus and challenge by PwC throughout the audit, and that PwC remained objective and independent in its role as External Auditor. Following the most recent review, the Audit Committee recommended the reappointment of PwC as auditors of ASOS, and PwC expressed their willingness to continue. A resolution to reappoint PwC and a resolution to enable the Directors to determine their remuneration will be proposed at the 2021 AGM.

PwC were first appointed in the financial year ended 31 March 2008. Our current audit partner, Andrew Latham, has been on the Group's audit for five years and is due to rotate off following the end of the FY21 audit. The new audit partner for FY22 will be Neil Grimes.

Risk management and internal controls

The Board has delegated responsibility for overseeing the effectiveness of the Group's internal controls and risk management systems to the Audit Committee. The Committee has a policy of continuous identification and review of principal business risks and considers how those risks may affect the achievement of business objectives and determines appropriate mitigation, taking into account the Group's risk appetite.

The Executive Committee implements the internal controls and processes and provides assurance on compliance with these processes. On a day-to-day basis, the Group risk management process is managed and co-ordinated by the General Counsel & Company Secretary and the Director of Internal Audit & Risk, to ensure there is a more integrated, deeper focus on applying and evolving risk management and internal controls throughout the business.

The key elements of the Group's internal controls are as follows:

- An established organisation structure with clear lines of responsibility
- A disciplined management and committee structure which facilitates regular performance review and decision-making
- A comprehensive strategic review and annual planning process
- A robust budgeting, forecasting and financial reporting process
- Various policies, procedures and guidelines underpinning the development and financing operations of the business, together with professional services support including legal, human resources, information technology, tax, company secretarial and health, safety and security
- A risk management and Internal Audit function
- A whistleblowing process that enables concerns to be reported confidentially and on an anonymous basis and for those concerns to be investigated

Additionally, the Committee receives and discusses regularly:

- The Group's Risk Register, including significant and emerging risks, and how exposures have changed during the period
- The effectiveness of internal controls and processes at mitigating those risks
- Internal audit reports, summary reports of findings and recommendations from completion of the internal audit plan
- Progress against completion of agreed actions from internal audit on their review of the effectiveness of various elements of the internal control system maintained by the Group
- Quarterly whistleblowing reports

Our Risk Registers are formally reviewed every six months to identify the likelihood and business impact of any material or emerging risk, as well as any mitigating factors or controls. This review feeds into a robust assessment of the principal and emerging risks facing the Group bi-annually. Progress and key themes coming out of the risk reviews are reported to the Executive Committee and the Audit Committee. More details on our risk management processes and Risk Register can be found in the report on pages 36 to 43.
In addition to the bi-annual business risk review, at the start of the pandemic, a COVID-19 specific Risk Register was established to capture related new risks, but also changes or movement in existing risks due to the pandemic.

During the year we reviewed the full suite of Group Business Continuity Plans (BCP) to improve resilience and robustness, incorporating COVID-19 learnings, and improving scenario-specific plans. An annual BCP management cycle has also been embedded, to better track, review and evolve BCP.

The Committee approved an updated Whistleblowing Policy, toolkit and escalation process during the year. The Policy outlines the ways the Group's employees can report concerns about suspected impropriety or wrongdoing (whether financial or otherwise) on a confidential basis, and anonymously if preferred. This includes an independent third-party chatbot that employees can use to raise problems and report concerns, completely anonymously and confidentially with no repercussions. Any matters reported are investigated by either the General Counsel & Company Secretary or the Director of Internal Audit & Risk (the Company's Whistleblowing Officers) and are escalated to the Committee as appropriate. Whistleblowing is a standing item on the Committee's agenda, with a report summarising notifications received during the prior quarter submitted to the Committee prior to each meeting.

During the year, the Committee continued to monitor the progress being made to further strengthen and develop the Group's cyber security measures. ASOS' approach to cyber security, and the level of security controls and processes that have been put in place over the last few years, continues to be extended and essential to our fast-moving high-growth business and our adaptation to working from home more often. The Committee also monitored the physical security measures that have evolved to counter risks to our physical supply chain and offices.

The Committee is satisfied that the risk management and internal controls systems for all parts of the business operated effectively for the financial year to 31 August 2021 and up to and including the date of this report.

Internal Audit

The primary role of our Internal Audit function is to support the Board to protect the assets, reputation and sustainability of the Group. The Internal Audit function provides independent assurance as to the adequacy and effectiveness of the Group's internal controls and risk management systems. During the year we began the evolution of our Internal Audit function with the appointment of a Director of Internal Audit & Risk and a Head of Internal Audit who are working to build an in-house Internal Audit function. Previously the company's Internal Audit function has been solely outsourced to Deloitte LLP, but from FY22 we will move to a co-source arrangement to bring greater assurance and more integrated support to the business on a day-to-day basis. The Director of Internal Audit & Risk presented her perspective on how the Group should view and approach Internal Audit going forward, particularly in the context of increased regulatory focus. The Internal Audit Charter was amended to reflect the new in-house function and the co-source arrangement and was approved by the Audit Committee in July 2021. The Committee continues to monitor the effectiveness of the Internal Audit function.

The Committee reviewed and approved the proposed schedule of planned internal audits to be undertaken during the year at the start of the financial year. The plan was produced based on Internal Audit's assessment of key financial, operational, strategic and technological risks to the business. Due to the impact of the COVID-19 pandemic, the plan was then reassessed in January 2021, in order to ensure that it still represented the correct priorities within the business.

The following key internal audits were completed during the year: Operational spend and approval, Stock not available for sale, Third party resilience, Cash flow and forecasting, Payment gateways, Identity and access management, Fashion with Integrity – ethical supply chain, and TGR programme assurance. The following internal audits are in-flight: Cyber governance and Key financial controls: Accounts Payable. Summaries of all key internal audit reviews, activity and resulting reports are shared with the Audit Committee for review and discussion. Following each review, an Internal Audit report is provided to the management responsible for the area reviewed and the relevant Executive Committee member. These reports outline Internal Audit's opinion of the management control framework in place, together with actions indicating improvements proposed or made as appropriate. The Executive Committee has responsibility for ensuring the timely implementation of any recommendations and actions resulting from the completion of an audit, monitored by the Committee.

A revised schedule of internal audit review projects for the financial year to 31 August 2022 was approved by the Audit Committee in July 2021.

Ian Dyson
Audit Committee Chair
19 October 2021