

Audit Committee Report



Committee Chair

Natasja Laheij

Members

👤 Mai Fyfield 👤 Wei Gao 👤 Jose Manuel Martínez Gutiérrez

Committee responsibilities

The Committee's principal responsibilities are to:

- Monitor the integrity of the Group's financial statements in relation to the Group's financial performance.
- Review the Group's accounting policies, and significant estimates and judgements.
- Review the effectiveness of the internal and external audit processes and report internal and external audit findings to the Board.
- Review the effectiveness of the Group's internal controls, including the process for the evaluation, assessment and management of risk.
- Oversee the Group's whistleblowing, compliance, security and fraud prevention procedures.

Terms of Reference

The full Terms of Reference for the Audit Committee are available on our website, asosplc.com.

The Audit Committee's attendance at meetings is detailed in the table on page 62.

Audit Committee Chair's statement

I am pleased to present the Audit Committee ("Committee") Report for the period ended 3 September 2023. This report should be read in conjunction with the compliance report on page 61, which shows how the Company has complied with the UK Corporate Governance Code 2018 (the "Code").

This report provides an insight into the Committee's activities during the period, sets out how the Committee operates and the key areas of focus for the year ahead.

The composition of the Committee changed during the period as a result of Board changes:

- I joined the Committee as Chair upon my appointment to the Board on 11 April 2023, replacing Patrick Kennedy who stepped down from the Board and as Committee Chair with effect from 5 April 2023.
- Luke Jensen stepped down from the Board and Committee with effect from 31 October 2022.
- Eugenia Ulasewicz stepped down from the Board and Committee with effect from 11 January 2023.
- Wei Gao was appointed to the Board and Committee on 1 February 2023.
- Jose Manuel Martínez Gutiérrez joined the Committee upon his appointment to the Board on 11 April 2023.

The Board considers all Committee members to be independent Non-executive Directors for the purposes of the Code.

I would like to thank my predecessor as Audit Chair, Patrick Kennedy, for his valued contribution to the Committee throughout the period.

I was appointed as Committee Chair given my extensive international commercial and financial experience in e-commerce and retail environments, and given my external role as Chair of the Audit Committee of Vandemoortele, an international food company. The Board is therefore satisfied that I have the requisite recent and relevant financial experience to Chair the Committee. Furthermore, all Committee members have competence relevant to the sector in which the Company operates. The biographies of the Committee members can be found on pages 55 to 56.

We continue to track developments with the UK Government's corporate governance reforms so that we are ready to adapt to the changes to requirements in the forthcoming years. As a Committee, we are considering the implications of the recently published Audit Committees and External Audit: Minimum Standard, which became effective in May 2023, to identify any actions we need to take to ensure our compliance.

Natasja Laheij

Audit Committee Chair
31 October 2023

Audit Committee Report **continued**

Committee activities

The Committee operates with a forward-looking agenda which is prepared in conjunction with the Chief Financial Officer and Company Secretarial team, to ensure the Committee's duties are fulfilled on a timely basis around the Group's financial reporting cycle.

The Committee held five scheduled meetings during the period and the attendance by Committee members can be seen on page 62. The Committee, on behalf of the Board, provides oversight of the Group's risk management processes. Following each meeting, the Committee Chair reports to the Board on the main discussion points of the Committee.

Although not members of the Committee, the Board Chair, CEO, Interim CFO, General Counsel & Company Secretary and Head of Internal Audit & Risk are also invited to attend Committee meetings unless they have a conflict of interest. The Group's External Auditor, PwC, is also invited to attend Committee meetings. The Committee Chair and members regularly meet with both the External and Internal Auditors in private. As is needed, the Committee also receives advice from advisors on any tax or legal issues which may arise.

Fair, balanced and understandable

One of the Committee's key roles is to advise the Board that it is satisfied that the Annual Report and Financial Statements are fair, balanced and understandable (see page 98) and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy. In doing so, the Committee ensures that disclosures reflect the underlying supporting information whilst challenging management where appropriate, with any required updates made if necessary. The External Auditor supports this process, in the course of its statutory audit, by auditing the accounting records of the Group against agreed accounting practices, relevant laws and regulations. In addition, the Committee:

- Reviewed the processes and controls that underpin the Annual Report preparation including confirmation that the reporting team and senior management were fully aware of the requirements and their responsibilities.
- Received an advanced draft of the whole Annual Report and provided feedback on it, with amendments made to incorporate any feedback ahead of final approval.
- Was provided with a list of the key matters included in the Annual Report, highlighting both positive and negative influences.
- Reviewed and discussed the key factors considered in determining whether the Annual Report is fair, balanced and understandable.

The Committee recommended to the Board that the Annual Report 2023 is fair, balanced and understandable while providing the necessary information to assess the Company's position and performance, business model and strategy.

External Auditor

PwC continued as the Company's auditor for FY23 following re-appointment at the Company's Annual General Meeting on 11 January 2023.

The Committee has primary responsibility for recommending the re-appointment of the External Auditor to the Board before the resolution is put to shareholders at the Company's Annual General Meeting. The Committee believes that it is in the best interest of its members for PwC to remain as External Auditor and we therefore recommend that PwC be re-appointed as Company auditors for FY24.

External audit effectiveness

The Board has delegated authority to oversee the relationship with the External Auditor, and to review audit effectiveness to the Committee. The audit scope, approach, materiality and areas of focus are agreed well in advance of the audit to align on expectations and timeframes. A feedback session is held following each audit to discuss what went well and to identify areas for continuous improvement to feed into the next audit planning process.

The Committee assesses audit effectiveness through review of the quality of the audit reports and ancillary documents provided by the auditors, consideration to the views of the Interim CFO and his senior finance team and through collective views of the audit partner and his team.

The Committee holds private sessions with PwC without management present to discuss feedback from the audit. The Committee ensures that the External Auditor has challenged management and received the access it required to conduct an effective audit, and in a timely manner. If PwC has any concerns about access to information, or the information received, it would be reported to the Committee in order for the Committee to fulfil its delegated responsibilities.

The Committee Chair also meets with the audit partner, Neil Grimes, privately and he is authorised to contact the Committee Chair at any time if he wishes to raise any matters of concern.

Based on this collective analysis, the Committee is satisfied that PwC had applied appropriate and robust focus and challenge throughout the audit.

External Auditor independence and objectivity

Any non-audit services provided must be in accordance with the Group's Non-Audit Services Policy, which states that:

- the CFO has pre-approved authority to commission the External Auditor to undertake non-audit work for a specific project expected to be less than £50,000;
- non-audit services expected to be between £50,000 and £250,000 must be approved by the Committee Chair;
- non-audit services expected to be over £250,000 must be approved by the Committee Chair and one other Committee member before being carried out.

Before commissioning non-audit services, the Committee must ensure that there is no issue as regards to independence and objectivity and other potential providers are adequately considered. PwC may only provide such services if the service does not conflict with their statutory responsibilities and ethical guidance. When reviewing requests for permitted non-audit services, consideration is given to whether the skills and experience make the External Auditor the most suitable supplier of the non-audit service, taking into account independence or objectivity, 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.

The Committee's principal activities during the period included:

Financial reporting	<p>Integrity of the financial statements and formal announcements</p> <ul style="list-style-type: none"> • The Committee reviewed the Annual Report and Accounts, and supporting information, and concluded that the Annual Report was fair, balanced and understandable as detailed above. • Reviewed the full and half-year results announcements. <p>Significant financial and reporting matters</p> <ul style="list-style-type: none"> • Reviewed key accounting judgements and estimates applied in the preparation of the Group's financial results. These included inventory provisioning, particularly updates following the Group's transition to its new commercial model, management's assessment of items to be excluded from adjusted profit before tax and the assumptions/judgements included within management's going concern, viability and impairment reviews. More information can be found in Significant financial reporting matters and judgements on page 72. <p>Assumptions in support of going concern and viability assessments</p> <ul style="list-style-type: none"> • The Committee considered the viability and going concern statements and their underlying assumptions. • The Committee evaluated going concern over an 18-month period, which included a review of financial plans and assumptions, access to financing and the challenging economic environment and the adaptability of financial plans. • The Committee also considered the appropriateness of a three-year viability assessment period after modelling the impact of certain scenarios arising from the Group's principal risks. • More information can be found in the Long-term viability statement on pages 52 to 53, the Going Concern statement on page 113, and the Significant financial reporting matters and judgements on page 72. <p>Financial Reporting Council (FRC) review letter</p> <ul style="list-style-type: none"> • In June 2023, ASOS received a letter from the Corporate Reporting Review Team of the FRC in relation to its regular review and assessment of the quality of corporate reporting in the UK. • The letter focused on FY22 with queries on the following main areas: <ul style="list-style-type: none"> – The assumptions and disclosures made in relation to the carrying value of inventory, specifically with regards to the Group's new commercial model, and whether it represented an adjusting or non-adjusting post balance sheet event as at the FY22 year-end. – Disclosures in relation to inventory provisions. – The assumptions and disclosures made in relation to going concern. – The impact of changing discount rates on the dilapidation provisions held. – The FRC's review was based solely on the 2022 Annual Report and Financial Statements and therefore did not benefit from prior discussion with the Company on the underlying detail. ASOS responded to the FRC and proposed additions to future disclosures, following which the review was closed. Enhanced disclosures have been included in the 2023 financial statements.
External audit	<ul style="list-style-type: none"> • Reviewed and agreed the scope of the external audit process prior to commencement of the FY23 audit. • Considered the External Auditor's reports on the full year and half year results. • Appraised the effectiveness and performance, independence, and objectivity of our External Auditor. • Considered the external audit fees and terms of engagement. • Reviewed and approved non-audit services and approved updates to the Non-Audit Services Policy.
Risk and internal controls	<ul style="list-style-type: none"> • Reviewed and provided oversight of the Group's risk management and internal controls processes and ensured that effective controls, processes, assessments and mitigations were maintained. • 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. • Received updates on current or threatened material litigation. • Reviewed the Group's Whistleblowing Policy and escalation matrix and updates on whistleblowing matters. • Reviewed the Group's Gifts & Hospitality Policy, approach to training, and updates on Gifts & Hospitality matters.

Audit Committee Report **continued**

Committee's principal activities continued

Internal audit	<ul style="list-style-type: none"> Monitored and reviewed the effectiveness and independence of the Internal Audit function. Reviewed Internal Audit reports and monitored the implementation of Internal Audit actions. Reviewed Internal Audit's strategy and operating model. Oversaw the implementation and status of outstanding actions arising from the Financial Position and Prospectus Procedures undertaken as part of the Company's move to the Main Market. Reviewed and approved changes to Internal Audit's FY23 plan of work and broader strategy to ensure this remained aligned to priorities under our Driving Change agenda. Reviewed and approved Internal Audit's plan of work for FY24 based on assessment of the Group's key financial, operational and compliance risks, and strategic aims.
Other matters	<ul style="list-style-type: none"> Considered matters relating to the Company's refinancing activities during the period including the equity raise. Received updates on tax matters and approved the Group's Tax Strategy. Received an update on the Group's approach to Business Continuity Management. Received regular updates from the Chief Information Security Officer and Chief Technology Officer for monitoring and reviewing cyber security activities. Reviewed cyber security processes and systems including a review of the Group's ransomware response and recovery plan. Received updates relating to the UK Government's activities following the 2022 consultation in restoring trust in audit and corporate governance.

Significant financial reporting matters and judgements

Area of focus	Actions taken
Going concern and viability	<p>The Committee undertook a detailed review of the financial liquidity of the Group over an 18-month period to support the going concern assessment, and a three-year period to support the viability assessment. In doing so, the Committee challenged management's assessment of forecast cash flows, including sensitivity to trading and expenditure plans, and for the potential impact of certain scenarios, including reductions to forecast revenues and margin, and working capital outflows. The Committee also considered the Group's financing facilities and compliance with the related liquidity covenant. Based on this, the Committee confirmed that the application of the going concern basis for the preparation of the financial statements continued to be appropriate, with no material uncertainties noted. It was also concluded that the Group is able to meet its liabilities as they fall due over the viability period of three years, however on the condition that the Group successfully refinances the convertible bond that matures in April 2026. This has been clearly highlighted within the Long-term viability statement. For further information, see pages 52 to 53.</p>
Inventory provisions	<p>The Committee considered the inventory provision for FY23, noting its increase since FY22. Gross inventory as at 3 September 2023 totals £892.4m against which an inventory provision of £124.4m has been recognised – this is significant compared to FY22 (£31.3m) due to the material stock write-off provisions recognised during the year following the approval of the Group's new commercial model.</p> <p>Management provided the Committee with updates on the work performed to validate the appropriateness of key estimates used in respect of inventory provisions. Particular consideration was given to the overall level of provisioning and updates to methodology as the Group transitions to its new commercial model.</p> <p>The Committee concluded that the methodology for calculating the net realisable values of inventories, including management's estimates on provisions, was appropriate.</p>
Alternative performance measures (APMs)	<p>The Committee considers it important to take account of both the statutory measures and the APMs when reviewing these financial statements. In particular, items excluded from adjusted profit before tax were reviewed by the Committee. The adjusted loss before tax this year was £(70.3)m, and adjusted EBIT £(29.0)m (2022: £22.0m and £44.1m) – the excluded items are detailed within Note 3 of the financial statements. The Committee is satisfied that the presentation of these items is clear, applied consistently across years, in line with Group policy and that the level of disclosure is appropriate.</p>
Impairment of non-financial assets	<p>The Committee reviewed and challenged management's impairment testing of tangible and intangible assets, including goodwill. The Committee considered the key assumptions and methodologies for value in use models in order to conclude on their appropriateness. This included challenging projected cash flows, discount rates and reviewing sensitivities. No impairments were noted as a result of the review. The Committee was satisfied with the outcomes of the impairment reviews and that appropriate disclosures had been made.</p>

External Auditor independence and objectivity (continued)

The fees paid to PwC for the financial period to 3 September 2023 were £1.6m (2022: £1.2m). This included £1.3m for audit services. The Committee reviewed and discussed the fee proposal and was engaged in agreeing the audit scope.

In FY23, PwC provided non-audit services of £0.3m for its work on the half year review of our interim results. The total fees for non-audit services represented 35% of the Group audit fee payable to PwC during the period.

The Committee agreed that the non-audit services provided during the financial period should be provided by the External Auditor due to their in-depth knowledge of the business and is therefore an efficient means of receiving non-audit services.

The Committee also assesses the independence and objectivity of the External Auditor through open dialogue with the auditor, feedback from the Board, the Internal Audit team and management and through analysis of judgements, audit findings and audit actions.

Furthermore, consideration is given to the length of service of the audit partner. Neil Grimes was appointed as audit partner for FY22, following the former audit partner rotating off and is considered by the Committee to have a good understanding of the Group and acts with integrity.

The Committee was comfortable with 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, the policies we have in place to safeguard PwC's independent status and the tenure of the audit engagement partner not being greater than five years.

Following review, the Committee concluded that PwC remained objective and independent in its role as External Auditor.

External audit tender

PwC has acted as the Group's statutory External Auditor since 2008. A competitive tender process for the Group's statutory External Auditor contract took place in FY22, whereby it was concluded that PwC would remain as the Company's External Auditor.

The Company is not currently in compliance with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Responsibilities) Order 2014 for the financial year under review as the audit tender undertaken on the step up to the Main Market was for FY24 rather than FY22, being the first year end following entry to the Main Market. The Committee considered that it was beneficial to delay the appointment to FY24 to ensure that the tender process was conducted in line with the FRC's best practice, to ensure the new Committee Chair could take an active role in the tender process, to allow the newly appointed External Auditor to shadow an audit (should we have appointed a different firm) and considering independence requirements which would restrict two audit firms from participating in the tender, meaning the tender would not be as fulsome as possible. We communicated our plan to the Competition and Markets Authority (CMA), who stated that, subject to the Company providing written confirmation of the completion of the tender process by the end of July 2022, enforcement action against the Company would not be an administrative priority for the CMA. We complied with the CMA's request. We will be compliant with the Order in FY24 and plan to conduct our next tender process in 2027 for the audit of the financial year ending 31 August 2028.

Employment of former External Auditors

Any employment of former employees of External Auditors would be considered on a case-by-case basis and would take into account the Auditing Practices Board's Ethical Standards on such appointments. Any such appointments would require approval from the CFO, the Committee or the Board depending on the seniority of the appointment.

Internal Audit

The Internal Audit function supports the Board and Committee by providing independent assurance as to the adequacy and effectiveness of the internal controls which manage risks across the Group and support delivery of its objectives. The Committee review and approve Internal Audit's plan of work for each financial period and monitor progress against it in each meeting. The plan is based on Internal Audit's assessment of the Group's key financial, operational and compliance risks and strategic aims. During the period the Committee additionally reviewed and approved changes to Internal Audit's FY23 plan of work to ensure this remained aligned to the Group's priorities under the Driving Change agenda.

The following key internal audits were completed during the period: Key Fraud Controls, Payroll Phase 1 – General IT Controls, Cloud Resilience Follow-Up, Authorised Economic Operator (AEO) Reauthorisation Project, Partner Fulfils, Payroll Controls, IT Security Hygiene & Basics, Fashion with Integrity Update Report FY22 – Data Validation, and Barnsley WMS IT General and Security Controls. The reports outline Internal Audits findings on the risk management systems and processes which are in place and are shared with the relevant Management Committee member. The Management Committee member is responsible for ensuring the timely implementation of any report recommendations and subsequent actions resulting from the audit. Summaries of reports are also shared with the Committee for review and discussion and any actions arising are monitored by the Committee.

During the period the Committee reviewed the effectiveness of Internal Audit using an in-house assessment, actions from Internal Audit's ongoing Quality Assurance and Improvement Programme (QAIP), and feedback provided by management and Committee members. The Committee considers the Internal Audit function to operate effectively and that the quality, experience and expertise of the function is appropriate for the Group.

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 Committee. This includes matters in relation to financial reporting, the preparation of Group accounts, the implementation of Group policies, including whistleblowing matters and risk management. The Committee has a policy of continuous identification and review of principal business risks, review of assurance over internal controls and considers how risks may affect the achievement of business objectives to determine appropriate mitigation, taking into account the Group's risk appetite.

The Management 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 Interim CFO and the Head of Internal Audit & Risk, to ensure there is an integrated focus on applying and evolving risk management and internal controls throughout the Group.

The key elements of the Group's internal controls in relation to financial reporting and risk management include:

- Established organisation structures with clear lines of responsibility and management and committee structures to facilitate regular performance reviews and decision-making.
- Robust budgeting, forecasting and financial reporting processes.
- Board discussion and approval of strategy, objectives, annual planning process and budgets.
- Regular management monitoring and consideration of developments in accounting regulations and best practice in financial reporting, including keeping the Committee updated on upcoming changes. Where appropriate, developments are reflected in the Group's financial statements. Financial reporting recommendations from the External Auditor, the FRC and others are assessed to ensure continuous improvement in the quality of the Group's financial statements. The Committee and the Board review the draft Annual Report and Accounts, and receive reports from management and the External Auditor on significant accounting judgements, changes in accounting policies and estimates and any other significant matters relating to Group's financial reporting.

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- Key policies, procedures and guidelines that underpin the development, financing and operations of the business. This includes policies for Delegation of Authority, Whistleblowing, Anti-Bribery and Corruption, Anti-Facilitation of Tax Evasion, and Anti-Fraud that are embedded within and enforced through ASOS' procedures, processes and controls. Compliance is monitored through the activities of central functions including Finance, Risk Management, Legal, Compliance, People Experience, Technology, Data Privacy, Tax, Treasury, Company Secretarial, Health and Safety and Security.
- Regular management reviews of the risks to achieving the Group's objectives that include identifying mitigating controls and actions and tracking their completion.
- Embedded whistleblowing processes that enable concerns to be reported confidentially and on an anonymous basis for investigation. The Committee reviews a summary of whistleblowing reports and outcomes every quarter.
- Ongoing Committee review of the scope and results of Internal Audit's work across the Group and monitoring of management's implementation of identified remedial actions.
- Regular discussion of the Group's principal risk profile and emerging risks, including review of how inherent and residual risk exposures have changed during the period, and any developments regarding mitigating controls and actions.

Based on the activities above, the Committee can confirm that it reviewed the Group's internal controls and risk management systems and concluded that there was an effective control environment in place across the Group during FY23 and up to the date on which these financial statements were approved. No significant failings or weaknesses were identified.

Our functional Risk Registers are formally reviewed every six months to ensure that all existing risks are captured and their potential likelihood and impact are understood. The process also identifies mitigating factors, controls and any further actions needed to manage the risks, as well as considering any new emerging risks that require monitoring. The reviews feed into a robust assessment of the Group's principal and emerging risks which the Committee and the Board review bi-annually.

Progress and key themes coming out of the risk reviews are reported to the Management Committee and the Audit Committee.

More details on our approach to risk management are provided on pages 44 to 45.

Whistleblowing

The Whistleblowing Policy, which was reviewed and re-approved by the Committee during the period, outlines the ways the Group's employees can report concerns about suspected impropriety or wrongdoing (whether financial or otherwise). The Company has an independent, confidential and anonymous whistleblowing tool (Spot) which is externally hosted. Employees can use the portal or contact a Whistleblowing Officer to raise and report any problems or concerns they may have. Any matters reported are investigated by one of our nominated Whistleblowing Officers and are escalated to the Committee as appropriate. Whistleblowing is a standing item on the Committee's agenda with reporting on the nature, and where appropriate content, of submissions received during the prior quarter submitted to each meeting. The Committee also receives updates on training in this area.

Cyber security

The Committee received and endorsed an updated security strategy in January this year. A new Chief Information Security Officer ("CISO") joined ASOS at the end of the last fiscal year and updated the strategy using a threat and risk-based approach which identified four priority improvement areas for delivery this year. The Group keeps up to date with progress on a quarterly basis where emerging threats and key cyber and physical security incidents are reviewed. In addition to the updated strategy, a key focus for the year has been rebuilding the Cyber Security leadership team, led by the CISO.

Anti-bribery and corruption

We have a zero-tolerance approach to bribery and corruption and is committed to conducting business in an ethical and honest manner. We are committed to acting professionally, fairly and with integrity, in all business dealings and relationships, wherever in the world we operate. Anti-bribery and corruption training forms part of the new starter training when ASOSers join, and is then completed annually thereafter, to ensure all ASOSers are aware of their responsibilities in this area and we implement and enforce systems to prevent bribery.

