

AUDIT COMMITTEE REPORT

AUDIT COMMITTEE CHAIRMAN'S STATEMENT

The Board has overall responsibility for managing the risks facing the business to protect as far as possible the long-term success of ASOS. The Audit Committee plays a crucial role in assisting the Board to discharge that duty by monitoring, reviewing and challenging the effectiveness of the Group's systems of control and processes concerning financial reporting; risk management and business continuity; and business assurance around areas such as fraud, bribery and corruption detection, and whistleblowing. The Committee also monitors and reviews the appointment of the Company's external and internal auditors (including the nature and scope of their work), as well as the external auditors' independence and effectiveness, audit fees and the provision of non-audit services.

AUDIT COMMITTEE COMPOSITION

The Audit Committee currently comprises three independent Non-Executive Directors: Ian Dyson (Committee Chair), Rita Clifton and Hilary Riva. During the year to 31 August 2016, Karen Jones resigned as a Non-Executive Director and therefore stood down as a member of the Audit Committee. The table below sets out each member's attendance record at Committee meetings during the financial year.

Committee member	Role	Attendance record
Ian Dyson	Committee Chair	4/4
Rita Clifton	Non-Executive Director	4/4
Hilary Riva	Non-Executive Director	4/4
Karen Jones*	Non-Executive Director	1/1

*Karen Jones resigned as a Non-Executive Director on 3 December 2015 and so was only eligible to attend one meeting

Although not members of the Audit Committee, the Company Chairman, the Chief Executive Officer, the Chief Financial Officer, the General Counsel & Company Secretary and the Group Financial Controller are also invited to attend meetings (unless they have a conflict of interest), as are the external and internal auditors. Other senior members of the Finance Team are invited to attend meetings as appropriate, unless there is any potential conflict of interest.

The Audit Committee Chair and members also regularly meet with both the external and internal auditors, without the Executive Directors or members of the Finance Team present.

The Board is satisfied that the Chair of the Committee, Ian Dyson, has recent and relevant financial experience. He is a chartered accountant, has held executive roles in financial positions in other companies and has chaired audit committees for a number of other listed companies. The Committee's other members have all played an active role in Committee meetings held throughout the year.

The Committee has engaged the following external advisers to assist it in meeting its responsibilities: PricewaterhouseCoopers LLP (PwC) act as external auditors to ASOS and Deloitte LLP act as internal auditors to the Company. The Company also receives advice as required from PwC and Slaughter and May LLP on tax and legal issues relating to corporate matters.

The Audit Committee: responsibilities

The Committee's principal responsibilities are:

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

The full Terms of Reference for the Committee are available on the Company's corporate website, www.asosplc.com. They were last updated on 18 March 2014 and reviewed again on 13 January 2016.

The Audit Committee met four times for scheduled meetings during the year. Its activities included:

- reviewing and approving the Annual Report and Accounts to 31 August 2015 and half-year results to 28 February 2016
- considering reports from the external auditors and identifying any accounting or judgemental issues requiring its attention
- overseeing the appointment of and relationship with the external auditors, including an assessment of their independence and a review of the policy for use of external auditors to provide non-audit services
- reviewing and considering reports on the work of the internal audit function
- reviewing and approving the Group's tax and treasury strategies and policies, as well as the Auditor Rotation policy and the Delegated Authority levels
- receiving regular reports on IT security processes and systems, and the work of the IT Security Team
- reviewing the Company's Business Risk Register and the risk mitigation actions undertaken during the year
- considering reports on the Company's Gifts and Corporate Hospitality Policy
- reviewing the Committee's Terms of Reference
- agreeing an appropriate period for a viability statement
- approval of a new dedicated Business Assurance function to provide better focus on and oversight of risk management, compliance and business continuity.

FINANCIAL REPORTING

The Board has discussed areas of risk with the auditors and agree for the following areas of heightened risk to be reviewed and assessed in the audit of the Company's performance in the financial year to 31 August 2016.

- **Risk of fraud in revenue recognition:** the greatest risk of revenue recognition fraud is at the financial statement level, through the posting of manual journals. There is also a potential revenue recognition risk for goods in transit over the year end.
- **Capitalisation of costs may not be appropriate:** given the significant levels of capital expenditure and internal IT costs capitalised, there is a risk that additions may be incorrectly capitalised.

- **Risk of share option schemes being incorrectly accounted for:** due to the complexity of IFRS 2 'Share-based Payment', the number of schemes available for ASOS employees and additional grants under the ASOS Long-Term Incentive Scheme in the year, there is a heightened risk of error from incorrect accounting treatment.
- **Tax provisions and exposure may not be accurately accounted for:** due to the complexity of tax in a number of smaller areas, such as tax related to share option schemes, VAT and overseas tax exposure, there is a risk of material misstatement in relation to tax accounting.
- **Stock not recorded correctly:** as a result of the increased stock holding in the overseas warehouses, there is a heightened risk that the closing stock is not accurately recorded in the financial statements.
- **Risk of ASOS loyalty scheme accounting being inaccurate:** given the complexity of accounting for loyalty schemes under IFRIC 13 'Customer Loyalty Programmes' and IAS 18 'Revenue Recognition', there is a risk that the accounting for the ASOS A-LIST scheme is not appropriate. Following the launch of the full scheme during the year, there is also the risk that sufficient information is not available to reliably estimate assumptions required in the calculation of the fair value of the award or the revenue requiring deferral.
- **Incorrect presentation and disclosure of discontinued operations:** following the decision to cease operations in China, there is a risk that costs relating to the ongoing Group are incorrectly classified as discontinued or exceptional.

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 they had performed in assessing each during their audit. Details of this work are provided in PwC's Audit Report on pages 60 to 64.

EXTERNAL AUDIT

The external auditors, PwC, were first appointed in the financial year to 31 March 2008. The fees paid to PwC for the financial year to 31 August 2016 were £259,000. In line with its Terms of Reference, the Audit Committee undertakes a thorough assessment of the quality, effectiveness, value and independence of the audit provided by PwC each year, seeking the views of the Board, together with those of relevant members of the Executive Board.

The Board is satisfied that the Company has adequate policies and safeguards in place to ensure PwC maintain their objectivity and independence. The external auditors report to the Audit Committee annually on their independence from the Company. Periodic rotation of key audit partners is also required and, in line with that policy, having overseen ASOS' external auditing for five years, the current Group audit partner from PwC will be standing down and will be replaced with another PwC partner for the financial year ending 31 August 2017.

The Board has a formal policy on the Company's relationship with PwC in respect of non-audit work. Proposals for all non-audit services above £50,000 must be approved by the Audit Committee before any such work is carried out, and PwC may only provide such services if their advice does not conflict with their statutory responsibilities and ethical guidance.

Following the most recent review, the Audit Committee recommended the reappointment of PwC as auditors of the Company, and PwC expressed their willingness to continue in office. A resolution to reappoint PwC and a resolution to enable the Directors to determine their remuneration will be proposed at the 2016 AGM.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has a policy of continuous identification and review of principal business risks and oversees risk management. This includes the use of key internal controls and processes to identify key risks, consider how those risks may affect the achievement of business objectives and determine appropriate mitigation actions, taking into account the Company's risk appetite.

The Executive Board is delegated the task of implementing the internal controls and processes to put the Board's policies on risk and control into effect, and for providing assurance on compliance with these policies and processes. On a day-to-day basis, the Group risk management process is managed and co-ordinated by the General Counsel & Company Secretary. The framework for this process is the Business Risk Register, which is prepared and regularly reviewed using consistent risk factors and identifies the business impact and likelihood, as well as any mitigating factors or controls. In the financial year to 31 August 2016, the Business Risk Register review was supplemented for the first time by a 'Black Swan' review carried out by the Executive Board to identify, among other things, those events where ASOS' reputation may be greater than is warranted, those events (however unlikely) that could materially impact the business's viability, and those events which it is no longer acceptable for a business of ASOS' size and profile to tolerate. Progress and issues coming out of both the Risk Register and Black Swan review are reported on a regular basis to the Executive Board, the Audit Committee and, going forward, the ASOS Leadership Team.

Where those controls and processes apply across ASOS, particular effort is made to ensure that they are written, positioned and refreshed in such a way that they are understood and engaged with by everyone connected with ASOS. Such an understanding is essential for those controls to be effective and the recent roll-out of both ASOShome, the Company's new intranet, and Facebook@Work provides a great opportunity to further deepen all ASOSers' awareness and understanding of the key controls and processes, and to further embed the Board's policy on risk management across our business.

During the financial year, the Board carried out an evaluation of the effectiveness of the risk management and internal controls systems for all parts of the business, which covered all material controls including financial, operational and compliance controls. While the Board is satisfied that these controls operated effectively for the financial year to 31 August 2016 and up to and including the date of this report, as mentioned above, the Executive Board has identified the need for a dedicated Business Assurance function to ensure an increased focus on applying and evolving risk management and internal controls, and this proposal was approved by the Audit Committee in July. This reflects the needs of a maturing business and will ensure a more integrated, deeper approach to the management of risk.

INTERNAL AUDIT

Our internal audit function is outsourced to Deloitte, who update the Committee at each meeting on their ongoing reviews. The fees paid to Deloitte for the financial year to 31 August 2016 were £243,000. The Committee reviewed the schedule of planned internal audits undertaken during the year and assessed the processes in place to track and monitor progress in fixing the management actions highlighted by these audits. Key internal audits conducted included a review of our core controls across accounts payable and stock accounting, our end-to-end order to cash process, our margin analysis and reporting, our payroll process including key HR controls, our risk management, corporate governance and Board reporting and a review of our IT data security. As a result of these reviews, we set up working groups to take forward any findings regarding our control framework, including implementing better controls and processes. These groups were also required to provide progress updates regularly to the Audit Committee.

This review ensures that the Committee is able to give assurances that the Group has an effective risk management framework. At the time of reporting, there are no actions that are overdue regarding this timeframe.

The key actions to increase the effectiveness of the internal audit function that were identified in the effectiveness review carried out during summer 2015 were duly implemented during the financial year to 31 August 2016, including a revised three-year schedule of internal audit review projects.

COMMITTEE EVALUATION

The effectiveness of the Committee is monitored and regularly assessed using internal evaluation questionnaires, and we have concluded that the Audit Committee is operating effectively.

OUR PRIORITIES FOR THE YEAR AHEAD

During 2017, the Committee will continue to focus both on the integrity of the financial controls, risk management systems, particularly through the establishment of the new Business Assurance department, and on the robustness of the Company's IT security arrangements to ensure that they reflect the changing risks of our high-growth business. We recognise in particular that cyber-crime is a growing threat to all businesses, as set out in our Risk Report on pages 20 to 24. Therefore we will continue to review IT security regularly, and keep the associated risks under close review.



Ian Dyson

Audit Committee Chair
17 October 2016