Ruth Anderson
Audit Committee Chairman

"Our report provides information concerning our oversight of the Company's assurance framework, internal controls and financial reporting."

17. Audit Committee Report

Dear Shareholder,

I am pleased to present the report of the Audit Committee for the financial year ended 29 November 2015.

Our report provides information concerning our oversight of the Company's assurance framework, internal controls and financial reporting.

We considered the significant accounting matters and issues in relation to the financial statements and in this report we explain why the issues are considered significant, which provides additional context for understanding the Group's accounting policies and financial statements for the period. This is the first year the Directors are required to make a viability statement and so the Audit Committee has spent time reviewing the Company's new viability statement (see page 39) and in particular understanding the analysis which was prepared by management and supports the Board's view that the Company will be able to continue in operation and meet its liabilities as they fall due over the longer period assessed.

We continued our role of overseeing the relationship with the external auditors, PricewaterhouseCoopers LLP, and were satisfied that they remain effective, independent and objective. However, in light of impending regulatory changes, we agreed to tender the role of external auditor in 2016, the result of which would be put to a shareholder vote at the 2017 annual general meeting. This timing aligned with the required rotation of the current audit engagement partner in 2017.

These matters as well as its other key responsibilities are outlined in more detail below. I will be available at the AGM to answer any questions about our work.

Ruth Anderson
Audit Committee Chairman
2 February 2016

Membership and meetings

The membership and appointment dates of the Audit Committee members, together with details of member meeting attendance, are set out below:

Ruth Anderson Chairman	David Grigson	Alex Mahon
Audit Committee member since 9 March 2010	Audit Committee member since 9 March 2010	Audit Committee member since 1 June 2012
Number of meetings: 4	**Number of meetings: 4**	**Number of meetings: 4**
Number attended: 3	Number attended: 4	Number attended: 4

Ruth Anderson missed an Audit Committee meeting which took place shortly after she had surgery.

Two members of the Audit Committee (Ruth Anderson and David Grigson) are considered by the Board to have competence in accounting and/or auditing and recent and relevant financial experience. Both have professional qualifications with the Institute of Chartered Accountants of England and Wales. Alex Mahon's appointment to the Audit Committee was renewed during the period, effective from June 2015. The biography of each member of the Audit Committee is set out in the Board of Directors section on pages 50 and 51.

Regular attendees at the Audit Committee meetings include the Chief Financial Officer, the Group General Counsel and the Company Secretary, the Finance and Risk Director, the Deputy Company Secretary, the Head of Internal Audit and Risk and the external auditors. Other attendees who attend as required include the Chief Executive Officer, the Chairman, a number of senior members of the finance department and other advisers to the Company.

Since period end, the Company announced that the Audit Committee composition will change as a result of the retirement of David Grigson at the AGM and the appointment of new Non-Executive Director, Andrew Harrison. Andrew Harrison will become a member of the Audit Committee with effect from 1 March 2016.

During the period, the Audit Committee met with the Head of Internal Audit and Risk, without management present.

17. Audit Committee Report (continued)

Key Areas of Focus for the Audit Committee

The responsibilities of the Audit Committee are set out in its terms of reference. The Audit Committee has an annual work plan, developed from its terms of reference, with standing items that the Audit Committee considers at each meeting, in addition to any matters that arise during the year. The main matters that the Audit Committee considered during the year are described below.

Financial Statements and Reporting: The Audit Committee monitored the financial reporting processes for the Group, which included reviewing reports from, and discussing these with, the external auditors, PwC. The Board and the Audit Committee have reviewed this Annual Report, as well as the half-year report. As part of the year-end reporting process the Audit Committee reviewed a management report on accounting estimates and judgements, external auditors' reports on internal controls, accounting and reporting matters and a management representation letter concerning accounting and reporting matters.

Monitoring the integrity of the financial statements of the Company and the financial reporting process and reviewing the significant accounting issues are key roles of the Audit Committee. The Board ensures this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy. For information concerning the process followed by the Company in preparing this Annual Report see page 62 of the Statement of Corporate Governance.

Accounting Judgements and Issues: The Audit Committee has assessed whether suitable accounting policies have been adopted and whether management has made appropriate judgements and estimates.

The Audit Committee reviewed and discussed reports from management on accounting issues and estimates in relation to this Annual Report. The Audit Committee sought to assess the reasonableness of the assumptions and judgements underlying the accounting issues.

The Audit Committee considers that the Company has adopted appropriate accounting policies and made appropriate estimates and judgements. The table on the following page summarises those significant issues which received particular focus from the Audit Committee in relation to the financial statements for the period and how these issues were addressed. The list is not a complete list of all accounting issues, estimates and policies but highlights the most significant ones in the opinion of the Audit Committee. The areas of assessment concerning revenue recognition and exceptional items, although set out in the notes to the consolidated financial statements (see note 1.4), were not significant to the Group's results for the period and so did not warrant particular Audit Committee focus. The accounting treatment of all significant issues and judgements was subject to review by the external auditors. For further information on the Company's critical accounting estimates and assumptions refer to the notes to the consolidated financial statements on pages 132 to 174. For a discussion of the areas of particular audit focus by the external auditors, refer to pages 120 to 124 of the Independent Auditors' Report.

Area	Issue and Nature of Judgement	Factors and Reasons Considered and Conclusion	Impact on Financial Information and Disclosure in Financial Statements
Cost of Sales — Commercial Income	The main categories of commercial income are identified as promotional support, media income and volume rebates. Commercial income is an area of focus due to the quantum of income recorded and its significance to the results of the period. Some parts of commercial income require management to apply judgement to ascertain the amounts and timing of income to be recognised where it relates to supplier transactions that span the period end. The amounts due from suppliers in relation to promotional activity and volume related sales targets are material.	The Audit Committee assessed the judgements made by management regarding volume rebate estimates for supply agreements negotiated by Waitrose. These volume rebates arise from annual agreements with many suppliers which include a financial reward for achieving pre-agreed volumes. These agreements are negotiated on behalf of the Group by its supply partner, Waitrose and the contract period typically spans the year end. The Audit Committee reviewed the basis of the judgements made by management and concluded that these were appropriate. This income is included in cost of sales (page 135).	See notes 2.1 and 3.8 to the consolidated financial statements on pages 132 and 174.

Area	Issue and Nature of Judgement	Factors and Reasons Considered and Conclusion	Impact on Financial Information and Disclosure in Financial Statements
Intangible Assets — Capitalisation of Internal Development Costs	The capitalisation of internal development costs is material and involves management judgements as to whether the costs incurred meet the criteria in accounting standards for capitalisation, including the technical feasibility of the project and the likelihood of the project delivering sufficient future economic benefits.	Details of material technology projects which are being capitalised along with the rationale for capitalisation were presented to and reviewed by the Audit Committee. The criteria for identification of projects which may be treated as intangible assets and the process to capture the costs of these technology projects were discussed by the Audit Committee. The Audit Committee also discussed the need for any impairment of the existing carrying values of capitalised software and systems recognised as a result of the development of new software and systems.	The amount of £24.1 million of internal development costs have been capitalised within intangible non-current assets, as set out in note 3.1 to the consolidated financial statements on pages 142 and 143.
Share Options and other Equity Instruments	The Group has multiple share schemes with differing methods of settlement and vesting criteria. The accounting for these schemes can be complex and typically requires management judgement, including assumptions with respect to transfer restrictions, share price volatility, leaver numbers and the likelihood of performance criteria being met.	The methodology, key assumptions and vesting criteria for the key share-based payment arrangements , as presented by management, were discussed and agreed by the Audit Committee.	The amount of £9.8 million for share-based payments is included in operating expenses. The methodology and key assumptions are set out in note 4.10 to the consolidated financial statements on pages 162 to 170.
Recognition of Deferred Tax Asset	The estimates used to support the future business profitability and recognised deferred tax asset require management judgement.	The basis of estimates of future taxable profits of the Group and the process used to calculate the deferred tax asset recognised were reviewed by the Audit Committee.	Details of the deferred tax asset are set out in note 2.8 to the consolidated financial statements on page 139.

Revenue: The Audit Committee considered the treatment adopted by management for accounting for charges to customers for plastic carrier bags and agreed that it be recorded as a deduction from revenue.

Going Concern and Viability Assessments: The Audit Committee and the Board reviewed the Group's going concern and viability statements (as set out on page 39). The external auditor reviewed management's assessment and discussed this review with the Audit Committee.

Segment Reporting: The Audit Committee considered the Group's approach to segmental reporting and concluded that the approach of reporting as one operating segment remains appropriate given the Group continues to be managed as one segment.

Tax Review: The Audit Committee also considered the Company's tax strategy and concluded that management's low risk approach to tax management remained appropriate. The Audit Committee discussed the various means by which the Group could provide the necessary tax expertise to cater for the growth of the business in the future.

Internal Audit and Risk: Internal Audit and Risk provides objective assurance and advisory services designed to add value and improve the operations of the Group. Its scope encompasses the examination and evaluation of the adequacy and effectiveness of the Group's governance, risk management and internal control processes in relation to the Group's goals and objectives. The Head of Internal Audit and Risk is supported by internal resources and where necessary third party resources or specialist expertise including in technology.

Part of the assurance provided to the Audit Committee when reviewing the effectiveness of the Group's systems of internal control comes from Internal Audit and Risk. The internal audit plan, which is developed by Internal Audit and Risk with input from management and the external auditors, takes into account the Group's objectives and the activities of the external auditors. It seeks to ensure that it addresses key areas of risk. The Internal Audit and Risk plan, which was approved by the Audit Committee in January 2015, set out a number of activities for the period and the 2016 financial year, including assurance programmes for key projects such as the new CFCs and the Ocado Smart Platform. Recommendations from Internal Audit and Risk are communicated to the relevant business area for implementation of appropriate actions. The results are reported to the Audit Committee alongside progress against the Internal Audit and Risk plan. As well as reporting at each Audit Committee meeting on governance, risk management and the control environment, Internal Audit and Risk reports on any cases of whistleblowing, fraud and bribery.

A review of the effectiveness of Internal Audit and Risk was carried out during the period by way of questionnaire completed by members of management, the Audit Committee and the external auditors. Having considered the results of this review and informal feedback from management and the external auditors provided during the period, the Audit Committee concluded that Internal Audit and Risk was effective.

17. Audit Committee Report (continued)

Risk Review: An annual review of the effectiveness of risk management and internal control processes was carried out by the Audit Committee. The Audit Committee relies on a number of different sources to carry out this review including an assessment report by management, Internal Audit and Risk assurance and assurance provided by the external auditors and other third parties. No significant failings or weaknesses were identified in this review.

The Audit Committee is supported by a number of sources of internal assurance from within the Group. Members of the Group's operations team presented to the Audit Committee in areas of key risks identified in the Group risk register, notably food safety, information security and data governance. This is complemented by monitoring and updated reports conducted by Internal Audit and Risk. The Audit Committee reviewed reports from management on key risk programmes concerning technology projects including its new technology platform. Given the importance of technology to the Group's strategy, both the Board and the Audit Committee discussed reports from management on the Group's technology security arrangements including with respect to protection of customer and employee data and of its systems from cyber attacks. In early 2016, the Group received a report concerning an information security audit conducted by Internal Audit and Risk and a report on the results of an information security review by KPMG.

Further details of the risk review and the Group's risk management and internal control systems, including financial controls, are set out in the "How We Manage Our Risks" section on pages 38 to 41, where the Audit Committee's work in this area is highlighted.

Interaction with the Board: The Chairman of the Audit Committee reports at each Board meeting on the business conducted at the previous Audit Committee meeting and the recommendations made by the Audit Committee.

Annual Review: In addition to its annual performance evaluation, discussed in the Statement of Corporate Governance on page 60, the Audit Committee carried out a review of its terms of reference. No changes were made to the terms of reference.

Assessing the Effectiveness of the External Audit Process

The Audit Committee places great importance on ensuring that there are high standards of quality and effectiveness in the external audit carried out by PwC. Audit quality is reviewed by the Audit Committee throughout the year and includes reviewing and approving the annual audit plan to ensure that it is consistent with the scope of the audit engagement. In reviewing the audit plan, the Audit Committee discussed the significant and elevated risk areas identified by PwC most likely to give rise to a material financial reporting error or those that are perceived to be of higher risk and requiring additional audit emphasis (including those set out in the Independent Auditors' Report on pages 120 to 126). The Audit Committee also considered the audit scope and materiality threshold. The Audit Committee met with PwC at various stages during the period, including without management present, to discuss their remit and any issues arising from the audit.

Auditor Re-appointment Overview

The Audit Committee considered the re-appointment of PwC as external auditors. This review took into account the factors below.

Effectiveness: The Audit Committee reviewed the performance of PwC based on a survey that contained various criteria for judging their effectiveness and on feedback from management. The criteria for assessing the effectiveness of the audit included the robustness of the audit, the quality of the audit delivery and the quality of the people and service. The Audit Committee also met with management, including without PwC present, to hear their views on the effectiveness of the external auditors. The Audit Committee concluded that the performance of PwC remained effective.

Independence and Objectivity: The Audit Committee considered the safeguards in place to protect the external auditors' independence. PwC reported to the Audit Committee that it had considered its independence in relation to the audit and confirmed to the Audit Committee that it complies with UK regulatory and professional requirements and that its objectivity is not compromised. The Audit Committee took this into account when considering the external auditors' independence and concluded that PwC remained independent and objective in relation to the audit.

Non-Audit Work carried out by the External Auditors: To help protect auditor objectivity and independence, the provision of any non-audit services provided by the external auditors requires prior approval, as set out in the table below.

Approval Thresholds for Non-Audit Work	Approver
Over £10,000 and up to £30,000 per engagement	Chief Financial Officer
Over £30,000 and up to £100,000 per engagement	Chief Financial Officer and Audit Committee Chairman
Greater than £100,000 per engagement, or if the value of non-audit fees to audit fees reaches a ratio of 1:2 as a result of a new engagement, regardless of value	Audit Committee

An additional protection is provided by way of a non-audit services fee cap. The Audit Committee (or the Company) may not approve an engagement of the external auditors if annual non-audit services fees would exceed 70% of the average audit fees (not including fees for audit related services) charged in the previous three years. Certain types of non-audit service are of sufficiently low risk as not to require the prior approval of the Audit Committee, such as “audit-related services” including the review of interim financial information. “Prohibited services” are those that have the potential to conflict directly with the auditors’ role, such as the preparation of the Company’s financial statements.

Non-Audit Work Undertaken During the Period: The total of non-audit fees, audit fees and audit-related services fees paid to PwC during the period is set out in Note 2.5 of the consolidated financial statements on page 137. Of the non-audit services fees paid to PwC, most related to advice on the suitable location for a technology centre in Southern Europe and assurance work on the Group’s carbon disclosures.

The Audit Committee received a report from management regarding the extent of non-audit services performed by PwC. PwC also provided a report to the Audit Committee on the specific safeguards put in place for each piece of non-audit work confirming that it was satisfied that neither the extent of the non-audit services provided nor the size of the fees (being 12.9% of the audit fees) charged had any impact on its independence as statutory auditors. The Audit Committee was satisfied this was the case and so the auditors’ independence from the Group was not compromised.

Audit Fees: The Audit Committee was satisfied that the level of audit fees payable in respect of the audit services provided (excluding audit-related services) (being £287,000 (2014: £244,000)) was appropriate and that an effective audit could be conducted for such a fee. The existing authority for the Directors (including the Audit Committee) to determine the current remuneration of the external auditors is derived from the shareholder approval granted at the Company’s annual general meeting in 2015. At the annual general meeting in 2015, 99.98% of votes cast by shareholders were in favour of granting the Directors this authority.

Recommendation to Re-appoint: Following its consideration, the Audit Committee recommended to the Board the re-appointment of PwC as external auditors. The Board has accepted this recommendation and a resolution for its re-appointment for a further year will be put to the shareholders at the AGM. At the annual general meeting in 2015, 99.56% of votes cast by shareholders were in favour of re-appointing PwC as external auditors.

Proposed Tender of External Audit

PwC has audited the Group’s accounts since 2001 and the previous audit engagement partner rotated in 2012. A formal tender of the external audit contract has not been carried out since PwC was first engaged in 2001.

During the period the Audit Committee considered the timing of a formal tender of the external audit contract. Although the Group would not be required to execute a tender process or an auditor rotation for a considerable number of years under the new European and UK regulations, the Audit Committee recommended to the Board that a competitive tender process take place in 2016, with the outcome to be put to shareholders for approval at the 2017 annual general meeting. The Audit Committee believes this timing is in the best interests of the Company’s shareholders as it would coincide with the timing of the rotation of PwC’s audit engagement partner, due in 2017, under professional standards and because a tender has not been conducted since 2001. The Audit Committee plans to oversee this tender process and plans to agree a timetable and tender document in 2016, to be prepared in accordance with relevant requirements. Full details of the process will be set out in the 2016 Annual Report. There are no contractual obligations which restrict the Committee’s choice of statutory auditor.

Review of External Auditor Appointment Policy: In conjunction with the external audit tender review, the Audit Committee reviewed the Group’s policy on auditor appointment and independence. It agreed to changes to the policy to address the new legislative requirements, including restrictions on the provision of non-audit services by the external auditors (noted above) and mandated Audit Committee duties for auditor reappointment. The Audit Committee expects to keep this policy under review, in light of ongoing consultations by the Competition and Markets Authority and the Financial Reporting Council in this area.