



**Report of the Board's
Audit and Risk Committee**

THE AUDIT AND RISK COMMITTEE

INTRODUCTION

In line with co-operative corporate governance best practice, the Board of Directors of Southern Co-op has established a number of Sub-Committees to delegate specific aspects of its remit to. The Sub-Committees operate under the delegated power of the Board with the scope and remit of each being set out in clear terms of reference, with mechanisms for reporting back on activities to the Board being in place.

One of those Sub-Committees is the Audit and Risk Committee. The following report aims to provide Members with an overview of the role of the Audit and Risk Committee, together with information on Southern Co-op's risk management framework. This report covers the 52 week period ended 28 January 2024.

ROLE OF THE COMMITTEE

The Board have set out clear responsibilities for the Committee with Terms of Reference which were last considered and approved by the Board in January 2021. The Audit and Risk Committee reviewed the Terms of Reference in October 2023, and determined that no amendments were required at that time.

The Audit and Risk Committee plays a critical role in providing oversight and serving as a check and balance on Southern Co-op's financial reporting system. The Committee provides independent review and oversight of our financial reporting processes, internal controls and independent auditors. It provides a forum, separate from management, in which auditors can candidly discuss concerns.

The purpose of the Committee is to:

- Monitor the integrity of the financial statements together with any significant financial reporting judgements contained within the statements
- Review the consistency of, and any changes to, accounting policies and methods on a year-on-year basis
- Review the effectiveness of internal controls and risk management systems, recommending the level of risk appetite appropriate to the Board
- Appoint the internal audit function and monitors its effectiveness, in the context of the overall risk management system
- Monitor management's responsiveness to internal audit recommendations
- Consider post investment reviews of capital projects, assessing whether they have achieved expected results whether financial or otherwise
- Monitor significant losses, thefts and fraudulent activity
- Review whistle blowing procedures for reporting in confidence possible wrongdoing in financial reporting or other matters
- Recommend to the Board the appointment, reappointment, and remuneration of the external auditor and monitors their effectiveness
- Determine the basis on which the external auditor can carry out non-audit work to ensure their independence is maintained

MEMBERSHIP OF THE COMMITTEE

Membership of the Audit and Risk Committee is appointed by and from the Board, following recommendations from the Remuneration and Appointments Committee. The terms of reference set out that the Committee will comprise at least three Directors one of whom shall be the Vice-Chair of the Board, if they are eligible to sit on the Committee. When making appointments to the Committee, the Board consider the specific skills and experience of Directors, and seek to appoint Directors who have recent and relevant financial experience, or other relevant experience to this Committee.

In accordance with the Corporate Governance Code of Best Practice, the Chair of Southern Co-op, the Chief Executive, employee Directors and Directors who are recent former employees do not sit on this Committee.

The Board of Directors enhance the strength of its Audit and Risk Committee by co-opting an independent member to the Committee. Lucy Knox was appointed to the Committee for a term of three years from 2019. The Board subsequently appointed Ms Knox to the role of Independent Chair of the Audit and Risk Committee in October 2021 and extended her term to expire on 30 September 2024. Ms Knox brings to the Committee her experience gained during 21 years with the audit firm Deloitte and from her experience as a Director of a private business. This adds an extra dimension to the constructive challenge of the Leadership Team that manages the business.

During the year the Board considered the membership of the Committee following one member leaving the Board.

During the year the membership of the Audit and Risk Committee was as follows:

Director	Period	Meetings attended	Time on Committee
Lucy Knox *	Full Year	4 (4)	4 years 4 months
Jessica Danyluk	Full Year	4 (4)	2 year 6 months
Judith Feeney	Until 27 July 2023	2 (3)	1 year
Alison Hesselberth	From 27 July 2023	1 (1)	6 months
John Harrington	From 27 July 2023	1 (1)	6 months

Directors listed are those who were in office as at the year-end date of 28 January 2024 and time on Committee is to this date.

The number in brackets indicates the total number of meetings the Director was eligible to attend during the period.

* Committee Chair

Appointments to the Committee are initially for a period of up to three years, which may be extended for two further three-year periods. The table above confirms how long members have served on the Committee, as at the end of the year.

Only members of the Committee, and the Secretary (or the person nominated to service the Committee), have the right to attend Committee meetings. It is common however for other individuals to be invited to attend for all or part of any meeting to present and/or advise the Committee. This includes, but is not limited to the Chief Executive, Finance Director, Head of Finance, Head of Risk, Safety and Facilities Management, other management and external advisers.

INDEPENDENT EXTERNAL ADVICE

The Committee has full authority to commission reports which it deems necessary to help it fulfil its obligations within the powers and budgets set by the Board. The Committee meets its internal auditor, KPMG, and external auditor, BDO, at each regular meeting and has the opportunity for

discussion without management being present. Both the external and internal auditors have direct access to the Independent Chair of the Board, and the Independent Chair of the Audit and Risk Committee, at all times.

ENTERPRISE RISK MANAGEMENT

We recognise that risk is an integral and unavoidable aspect of our business. It can arise in many forms, having both positive and negative impacts on our ability to achieve our objectives. We have a proactive programme of activity to identify and manage our risk. Information on our most significant risks and our risk management approach is set out in this section.

The identification and management of risk reduces the uncertainty associated with Southern Co-op's business strategies and operations and allows Southern Co-op to maximise opportunities that may arise. Southern Co-op is committed to managing risks in a proactive and effective manner to provide assurance to the Board of Directors and stakeholders. It aims to operate effectively and efficiently while meeting the required standards of accountability, compliance and transparency.

To facilitate this commitment, the following principles underpin the risk management objectives:

- alignment of risk management processes with Southern Co-op's core and main support activities, including strategic and business planning, decision-making, and policy governance
- identifying risks through a process of reviews at varying levels of the business, with calibrations sessions identifying key risk themes
- ensuring that risk information is communicated through a clear and robust reporting structure
- ensuring that in managing risks, Southern Co-op fully complies with all relevant legislation, standards and regulations

ROLES AND RESPONSIBILITIES

The Board has overall responsibility for the oversight of material risks in Southern Co-op's business. Through the Board and its Committees, the Board is responsible for risk management by ensuring that an appropriate risk management policy and framework is effectively implemented by management and by giving directions to ensure that appropriate risk management procedures are in place, through the business planning process and operational policies. They also set the risk appetite for the business to give clear direction to management on the level of risk that they are prepared to accept.

The Board's Audit and Risk Committee assists the Board by having oversight of financial reporting risks and in reviewing the adequacy and effectiveness of the internal control and compliance systems. The Audit and Risk Committee reviews the actions of the Leadership Team in mitigating risks identified and monitor actions taken to mitigate risks identified from internal audit and external audit work.

The Chief Executive and the Leadership Team are accountable for ensuring that a risk management system is established, implemented and maintained in accordance with the Board's Risk Management Policy. They are therefore responsible for the effective design and implementation of detailed risk management strategies and processes to facilitate the achievement of business plans and goals. They have responsibility for ensuring legal and regulatory compliance and that appropriate management and accountability responsibilities are assigned throughout the business. The Leadership Team is responsible for the ongoing maintenance and regular reporting on risks and for the implementation of the agreed mitigation strategies and actions. During 2023, the Leadership Team continued its work in ensuring that the

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strategic objectives and projects planned seek to address the risks that have been identified or capitalise on opportunities that exist or arise.

RISK APPETITE

The Board has established a number of risk categories and it assesses risks against these. A risk appetite has been defined by the Board in relation to each risk category. The Leadership Team use these risk appetites to plan its management of the identified risks accordingly. The risk categories and risk appetites are reviewed annually to ensure that they remain appropriate.

The Board seek to balance Southern Co-op's risk position between promoting innovation, creativity and investment that may drive growth, enhance our products and service delivery and provide for the future, with the need to remain a stable organisation in the long term. The Board has therefore determined its risk appetites towards the middle of the risk-taking spectrum, taking an open stance to financial risks, an open/active stance to operational risks and a cautious approach to reputational risks, legal/regulatory (including privacy) risks and governance risks.

Where Southern Co-op applies a 'cautious' approach to risk, our preference is to adopt safe options that have a low degree of residual risk accepting that this may limit opportunities and may create additional cost to the business. Where we are 'open' to risk, we are willing to consider all potential options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward (and value for money etc.). In some areas of the business there is a need to be innovative and to seek to capitalise on opportunities, despite the fact that there may be a greater inherent risk in doing so. In these instances, we are adopting an 'active' risk position. In all cases, risk is assessed and we seek appropriate measures to mitigate risk within the risk appetite determined by the Board.

The Risk Appetite agreed by the Audit and Risk Committee, and Board of Southern Co-op in April 2023 is as follows:

Risk Category	Appetite	Description
Operational <ul style="list-style-type: none"> • <i>The process of designing, implementing and delivering products and services</i> • <i>Sourcing of products and services</i> • <i>Service delivery across stakeholders including IT service, securing of network, services and data</i> 	Open/Active	<ul style="list-style-type: none"> • Innovation is supported and pursued. Desire to 'break the mould' and challenge current working practices, with demonstration of commensurate improvements in management control. • Responsibility for non-critical decisions devolved. Management by trust encouraged. • Systems/technology developments are considered a key enabler to operational delivery.
Financial <ul style="list-style-type: none"> • <i>The application of financial principles/resource management to create and maintain value</i> • <i>Capital funding of new activities, investment in and divestment of assets</i> • <i>Generation and management of revenue</i> 	Open	<ul style="list-style-type: none"> • Prepared to invest for reward and minimise the possibility of financial loss by managing the risks to a tolerable level. • Value and benefits are considered. • Resources are allocated in order to capitalise on potential opportunities.

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Risk Category	Appetite	Description
<p>Reputational</p> <ul style="list-style-type: none"> Controlling and potentially influencing and/or enhancing SC's public perception Proactively implementing strategies to manage public opinion Consideration to the public perception of business decisions 	Cautious	<ul style="list-style-type: none"> Tolerance for risk taking limited to those events where there is little chance of significant repercussions should there be a failure.
<p>Legal/Regulatory (including Privacy Risk)</p> <ul style="list-style-type: none"> The adherence to requirements/rules whether they apply to all (laws) or specific industry (regulations) This includes Data Protection Act, Health and Safety at Work act, FCA Rules, etc. which cross over with other risk categories 	Cautious	<ul style="list-style-type: none"> Risk may only be taken if the gain will outweigh any adverse consequences and there is no infringement of laws and regulations.
<p>Governance</p> <ul style="list-style-type: none"> The way in which SC is governed and to what purpose Defining who has accountabilities and responsibilities Decision making frameworks in the interests of stakeholders 	Cautious	<ul style="list-style-type: none"> Accountabilities and responsibilities clearly defined with arrangements in place, monitored and reported upon Mandatory codes applied Voluntary codes complied with where appropriate
<p>Environment</p> <ul style="list-style-type: none"> The conscious and coordinated effort in mitigating our impact on the environment 	Cautious	<ul style="list-style-type: none"> Environmental impact of operations considered as part of business as usual Resources allocated on a case by case basis for climate change preparedness Financial opportunities will not be implemented at significant climate/biodiversity cost

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Risk Category	Appetite	Description
<p>Safety</p> <ul style="list-style-type: none"> The systems in place to reduce the risks to individuals safety and/or health associated with SC's activities Including the mental health and wellbeing of colleagues 	Cautious	<ul style="list-style-type: none"> Risks will be managed so far as is reasonably practicable Strategies, policies, processes and risk assessments will be in place Monitoring arrangements, consultation and oversight in place

RISK IDENTIFICATION

During 2023, Southern Co-op identified risks and opportunities through ten Directorates which held workshops to discuss the position for their areas of responsibility. This led to the identification of 156 risks at varying levels of severity ranging from low to very high. The most significant risks identified are discussed at Leadership Team and Board level, with a separate register of these being regularly reviewed throughout the year.

In October 2023, seven risk themes were identified, from the 20 risks, that the Board and Leadership Team have determined are the most significant to be monitored at a strategic level.



DEPENDENCIES



LEGISLATION



SKILLS SHORTAGE



CHANGE



COST BASE



COMPETITION

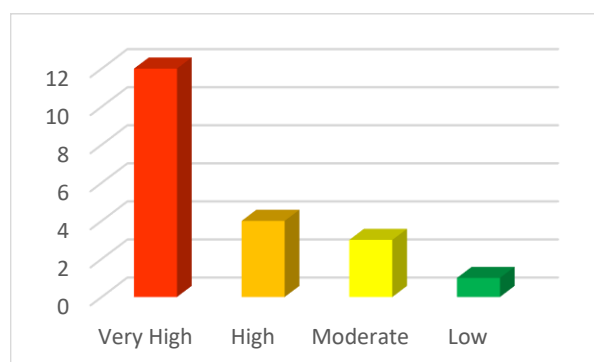


BUSINESS CONTINUITY

The level of each risk was set by considering financial and non-financial consequences and the likelihood of a risk materialising. Consequences were rated insignificant, minor, moderate, major or severe, whilst likelihood was rated as being rare, unlikely, possible, likely or almost certain to occur. Together these ratings determined the level of risk.

Risk ratings and levels were measured in terms of their inherent position (ie. before any management or mitigation is in place), and in terms of their residual position (ie. after existing controls and mitigation has been taken into account). The residual risk rating is the level of risk existing at the time of the review.

As at October 2023, of the twenty risks being monitored at a strategic level, 12 were deemed to be very high, 4 high, 3 moderate and 1 low risk. Where appropriate additional controls, management and mitigation are agreed to seek to reduce the level of risk, however, this is not always possible where the cause of the risk arises from external forces.



The risk themes and significant risks within them are set out below.

DEPENDENCIES

Southern Co-op acquires the majority of its products for resale from one key supplier, The Co-operative Group Limited (“The Co-op Group”). The failure of this supplier to meet its obligations would have a significant impact on Food Retail operations. In addition, the efficiency and effectiveness of The Co-op Group’s buying strategy and logistics operations have a direct impact on Southern Co-op’s cost base and revenue. Changes at The Co-op Group, whether leadership, technology, product or reputation, will inevitably impact Southern Co-op. The failure of the supplier to meet its obligations is considered unlikely however the consequences of this could be severe. The current ‘very high’ risk rating stems from the extent of technological change currently being undertaken at The Co-op Group and perceived difficulties and delivery of such change. Managing the position can reduce the severity of the consequence to a degree, however it is necessary to accept the level of risk remaining since Southern Co-op cannot remove the risk, nor substantially reduce it. The benefits derived from our relationship with The Co-op Group are considered to outweigh the risk. Robust governance arrangements have been put in place, with Southern Co-op being a member of Federal Retail and Trading Services Limited with appropriate voting rights and ongoing senior level review of the arrangements. A buying services agreement governs the supplier relationship and business continuity plans for the supplier are reviewed for assurance. In addition, our business continuity plan takes account of this risk.

Within our Cobra Coffee businesses, we operate under a franchise agreement with Starbucks. This leads to a dependency on them for supplies and certain services. Elements of our cost base (stock, consumables, build design and materials, etc) are impacted by Starbucks decisions. The Global Licensing Framework and Global Cloud Infrastructure are in place and define accountabilities. Regular communication with Starbucks and financial forecasting monitor the position throughout the year. The failure of supply through Starbucks would have a significant impact on our coffee business and cost base increases are being experienced due to inflation levels. The failure of the supplier to meet its obligations is possible, but experience over the recent years has shown this is not likely. Without controls there could be a major effect on our business, however the level of risk has been deemed to have reduced during 2023.

Across our range of businesses, we rely on many third parties for our IT systems. Failure of one or more of these third parties could compromise our business. Whilst such instances are rare, the impact could be severe. Business continuity and disaster recovery plans are in place. Robust contracts exist and monitoring through a shared services team is in place. Whilst there is generally an increasing cyber risk, we continually review our cyber security, disaster recovery and business continuity arrangements to ensure that they remain fit for purpose, and scenario testing is undertaken as part of our business continuity planning programme. 2023 saw the implementation of new payroll and funeral management systems. Risks were considered and managed throughout these IT projects and sound relationships developed for these cloud based systems.

LEGISLATION

In recent years, the Government has brought forward, and is considering, legislation across a range of areas. There is a growing burden on business to make changes to help address societal issues, and regulation designed to protect consumers and individuals is being introduced. Southern Co-op will incur additional costs as a result and requires the resource to ensure compliance. We undertake horizon scanning to identify future legislation with which we will have

to comply and plan our approach. Our membership of trade organisations and bodies such as the Association of Convenience Stores, British Retail Consortium and National Association of Funeral Directors and Funeral Plan Providers gives insight into changes and proposals. The possibility of a change of Government in 2024 creates a risk of further changes in legislative position.

Southern Co-op has approximately 550 property units to manage. Regulations in relation to fire safety and concerns in relation to RAAC require ongoing people and financial resource. A programme is in place to assess any risks and take action to address them. These issues are current and have a major impact on costs, the risk rating has been increased as a consequence. Government environmental targets have led to legislation which impact our property units. We have a climate action programme in place to meet such requirements with good progress being achieved. The risk rating has therefore been reduced for this risk.



SKILLS SHORTAGE

There is a national skills shortage heavily influenced by the COVID-19 pandemic as well as changing attitudes towards work. The demand outstrips the supply and can result in shortages of necessary talent in some areas. There has been a particular challenge in recruiting and retaining talent in store/hospitality roles and in some central roles due to competition with the London market. Pay inflation has been created as employers compete for talent. Across our trading area, the shortage of labour has been exacerbated by unemployment rates that are lower than the national average. While the impacts have been felt across all business areas, our Food Retail business has been the most severely affected. There is therefore a risk of a lack of people resource which could stretch existing colleagues, compromise our delivery of plans and services and affect morale. It is almost certain that there will be some impact which could be major in its severity. We continue to focus on the attraction and retention of key talent and are investing in pay and career development for all our colleagues. Action has been taken to make recruitment processes more efficient and changes to working patterns have been implemented. Despite this the risk remains very high.



CHANGE

The pace of technological change and advancement means that there is a risk of being behind current innovation and trends. It is considered that this is possible and that the impact would be moderate. Continued work with service providers, leading technology suppliers and partners keep us abreast of developments, and regular updating of systems ensures the latest functionality is embedded.

The changing face of retail and consumer demand is seeing a move towards online and on-demand shopping and food retailers are responding with competitive loyalty programmes. The Society offers member benefits due to its nature as a co-operative, however this difference is being eroded by competitor's programmes. IT investment to ensure a focus on in-store offer has been progressed during 2023. The increase in competitor activity has led to an increase in this risk rating. Our awareness of market conditions is maintained through membership of trade bodies and insight. We have experience in delivering swift change programmes to capitalise on opportunities and minimise this risk.

Due to societal challenges, we are continuing to see an increase in violence and aggression directed at frontline colleagues, particularly in our retail stores and across this industry. Whilst we cannot tackle these issues on our own, we take a collaborative approach with external partners. We have a dedicated steering group (Protecting our People) as well as a range of risk

based proactive and reactive strategies in place. The impact of such violence is being seen on our colleagues and without management could be severe. Our work in tackling these issues is reducing the impact for our colleagues, however we aim for longer-term support from government and police to address this issue, and work together with other retailers through the Association of Convenience Stores and British Retail Consortium to raise awareness.

A challenging operating environment and increased costs on the business has created the need to review our colleague resource to ensure it is appropriately structured and targeted. Reviews of our retail and end of life services structures have been undertaken, and 2023 saw an organisational design review of our central office.

COST BASE

Increases in energy costs, the National Living Wage and environmental levies continue to have a significant impact on operating costs. Inflationary increases are being seen across our goods for resale and goods and services not for resale. In addition, the costs of taking action to address the climate emergency continue to be an essential element of our cost base. Competitive pressures related to pricing in the Food Retail market and competitor approaches to loyalty limit the extent to which such increases can be passed to the consumer and therefore an element has to be absorbed by the business. The increased operating costs are occurring and are almost certain to continue and the impact would be severe without mitigation. Managing the position reduces the severity of the consequence. Southern Co-op continues to review its operating structures to ensure that they are aligned to business needs and to gain maximum efficiencies. An organisational design review was completed in 2023 which significantly reduced the costs of the central functions. We also review our procedures to ensure that we are as efficient as possible, utilising systems technology to enhance delivery. Improvements to our procurement processes also enable us to ensure we pay the right price for the quality of goods and services that we acquire, and plans have been developed in 2023 to not only capitalise on such efficiencies but also to drive forward both existing and new revenue streams.

Commodity prices and supply chain impacts continue to impact the business as is the case with increased energy prices. Consumer confidence, the employment market and investment values are also affected.

It's likely that Southern Co-op will be impacted by these risks and the consequence could be major, however, by managing the risk, the severity of impact can be reduced, although the risk level remains very high. We have robust financial planning processes which consider both short and long-term impacts. This includes close monitoring of the general UK economy, wider EU and global positions and the impacts on the markets in which we operate. Southern Co-op has a diverse set of business activities covering Food Retail, Coffee Shops, End of Life Services and property investments which spread the risk of impact. We are working closely with our suppliers to assess the risks and monitor work aimed at mitigating those which are capable of being mitigated.

COMPETITION

The markets in which Southern Co-op operates are increasingly competitive from both competitors opening new stores/funeral homes in our operating area and the requirement to keep prices competitive with our rivals. The competitive pressure is almost certain to occur and the impact would be major without mitigation. Managing the position reduces the severity of the consequence. This is closely monitored and is managed by the introduction of new stores, new funeral locations and innovative products and through the refurbishment of existing locations.

Competition for new sites remains high. 2023 continued to see significant investment in coffee shops and natural burial grounds in the year to further diversify our business operations. Food retail is particularly challenging with increased exposure on price competitiveness including loyalty pricing within supermarkets and convenience. Prices are closely monitored, and our product ranges and services are reviewed and adapted to reflect changing customer demands and expectations. Our membership offer provides the opportunity for more immediate reward alongside existing benefits of membership and our approach to sustainability and community support positions our brand favourably.



BUSINESS CONTINUITY

A significant incident at key sites of Southern Co-op which impacts multiple trading locations or external factors could adversely affect business operations and bring financial loss. Whilst the likelihood of most significant adverse events is unlikely, the consequence could be major. By managing the risk, the likelihood of significant adverse impact has been reduced.

We have developed business continuity and disaster recovery plans to continue Southern Co-op's critical activities in the event of a disastrous event and to return the business to normal processes thereafter. In addition, we have considered the impacts of climate change as they bring weather related risks. Whilst generally our business as usual processes are able to react to the effects eg. extreme heat, snow, storm, flooding, our business continuity steering group considers scenarios that could worsen in the future. Every year we test elements of the Business Continuity Plan.

PLANNED REVIEW OF ENTERPRISE RISK MANAGEMENT

A review of the risk management processes is planned for 2024 and good progress has been made to date. This includes how we structure our risk registers and how we facilitate continued productive discussions around risk mitigation and timescales. We will also take the opportunity to align registers to Our Plan 2024/26.

PREVENTION OF BRIBERY

Southern Co-op values its reputation for high legal, ethical and moral behaviour. It recognises that in addition to being a criminal act, any involvement in bribery is also unethical and dishonest and will reflect adversely on our image and reputation. Southern Co-op and its subsidiaries aim therefore to limit their exposure to bribery by:

- adopting a zero tolerance stance to bribery
- setting out a clear anti-bribery policy and a clear policy setting out when gifts and hospitality may be given or received, and the basis on which charitable donations may be made
- risk assessing each business in terms of the risk of bribery therein and establishing proportional measures to address identified areas of risk
- training colleagues so that they can recognise and avoid the use of bribery by themselves and others
- requiring our suppliers and third parties, acting on our behalf, to adopt similar anti-bribery policies and to comply with appropriate anti-bribery laws
- encouraging our colleagues to be vigilant and to report any suspicion of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately
- rigorously investigating instances of alleged bribery and assisting the police and other appropriate authorities in any resultant prosecution
- taking firm and vigorous action against any individual(s) involved in bribery non-compliance by colleagues will amount to gross misconduct leading to disciplinary action up to and including dismissal
- ending our relationship with any suppliers or third parties acting on our behalf found to be involved in bribery

The Board and management are not aware of any instances of bribery during the year.

PREVENTING MONEY LAUNDERING, TERRORIST FINANCING AND FINANCIAL CRIME

Money laundering is the process whereby criminals attempt to conceal the true origin and ownership of the proceeds of criminal activity. Their objective is to make the proceeds of crime appear legitimate by integrating them into the financial system. Southern Co-op takes seriously its responsibility that it is not used as a conduit for the proceeds of financial crime. Due to the nature of the businesses operated by Southern Co-op and its subsidiaries the risk of such has been deemed to be low, however to address the low level of risk that exists the following has been established:

- adopting a zero tolerance stance to money laundering, terrorist financing and financial crime and setting out a clear policy on the position
- risk assessing each business in terms of the risk therein and establishing proportional measures to address identified areas of risk
keeping under review the measures in place to manage any identified risks
- arranging appropriate training for colleagues, on a risk-based approach, so that they can recognise and report suspicious activity, and encouraging our colleagues to be vigilant
- providing colleagues with suitable channels of communication and ensuring sensitive information is treated appropriately
- having clear rationale for business relationships with Southern Co-op and its subsidiaries
- promptly reporting suspicions of money laundering and financial crime to relevant authorities, and assisting with investigations and prosecutions
- knowingly assisting, or tipping-off money launderers will amount to gross misconduct leading to disciplinary action up to and including dismissal

- ending our relationship with any suppliers or third parties acting on our behalf found to be involved in money laundering/terrorist financing

The Board and management are not aware of any instances of money laundering or terrorist financing during the year.

INTERNAL CONTROL

Southern Co-op has had arrangements in place that are consistent with the principles outlined in “Internal Control Guidance for Directors on the Combined Code” (The Turnbull Guidance) for the period under review, and up to the date the Annual Report and Financial Statements were approved. Further specific guidance for co-operative businesses is given in advice provided by Co-operatives UK Limited.

CONTROL FRAMEWORK

In accordance with the Corporate Governance Code of Best Practice published by Co-operatives UK Limited, the Board has conducted a review of Southern Co-op’s system of internal controls. The review covered financial, operational and compliance controls and risk management processes. Southern Co-op’s framework of internal controls consists of the following elements:

- an organisational structure with clearly defined lines of responsibility, delegations of authority and reporting requirements
- policies for expenditure, with set authorisation levels resulting in larger capital projects, acquisitions and disposals requiring Board approval
- a comprehensive system of financial reporting where actual results together with budget and forecast comparisons are reported regularly to the Board throughout the period
- Board review and approval of the annual budget and strategic plans
- a code of business conduct covering relations with Members, customers, employees, the community, the environment, suppliers, and competitors
- outsourced internal audit services with a programme of internal audit reviews linked to the principal risks identified and
- an Audit and Risk Committee that oversees Southern Co-op’s system of internal control and the internal auditor relationship.

Having reviewed Southern Co-op’s system of internal controls in the year, the Board consider that they are effective and appropriate for the business.

Control procedures

Southern Co-op has implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties, review by management, internal audit and external audit. However, the system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Monitoring

The Audit and Risk Committee receives and reviews the annual internal and external audit work plans. A summary of significant matters raised by internal audit is considered by the Committee at each meeting. The Committee also reviews the annual external audit management letter and the response of management to the auditors’ report. Having completed its work for the period

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under review, the Audit and Risk Committee considers that there has been no errors or control weaknesses that have resulted in any material losses or contingencies that require disclosure. The Board receives copies of all Audit and Risk Committee minutes, the external audit report and the external audit management letter.

Directors' Report

STATEMENT OF GOING CONCERN

Southern Co-op obtains its financial strength from a broad range of customers and suppliers across different geographic areas. We have a solid balance sheet position with net assets of over £114m and a cash balance in hand of over £4m. As a consequence, the Directors believe that Southern Co-op is well placed to manage its business risks successfully, despite the current uncertain economic outlook. It has taken action to manage economic risk and implemented forward looking mitigating actions in the year to maintain this position of strength, these actions included a full re-assessment of the requirements of the Head Office function and a subsequent restructuring exercise to reduce its cost base. It has also entered into a new energy buying consortium with other Co-operatives to lock in energy prices for 2024 and 2025 and gain a level of certainty for this significant operating cost.

Southern Co-op will continue with its plan to increase the number of coffee, food retail and funeral outlets. To achieve this growth the Directors will continue to review financial options for obtaining external debt from all of its banking partners to assist with the expansion. The Society has a borrowing facility of £19.5m available to it from its main banking partner and is permitted to enter into other lending arrangements at the same time. The use of external debt will be utilised along with internally generated funds to enable the business to achieve its planned growth.

EBITDA has remained flat year on year, despite inflationary increases and the cost of living pressures on our customers. This position has been discussed by the Board, who support management's view that the wider macro-economic situation is anticipated to be temporary and not permanent. Financial forecasting is undertaken on a medium to longer-term cycle and risks are assessed over the same term however, the business model and future of Southern Co-op is considered to be open ended and the Directors undertake strategic planning with a view for the long-term. The medium to long term financial forecasts have been assessed for key sensitive assumptions and stress testing performed on these assumptions. This determines the hypothetical detrimental quantum needed for the Society's Business model and banking facilities to be sufficiently breached to give rise to a going concern issue. Management and the Directors are confident that such extreme detrimental scenarios are highly unlikely or less extreme scenarios still allow the Society to trade with sufficient headroom of its borrowing facilities.

Taking account of Southern Co-op's current position and principal risks that would threaten the Business model, future performance, solvency or liquidity of the business, the Directors have a reasonable expectation that Southern Co-op has adequate resources as noted above, to continue in operational existence and to be able to meet its liabilities as they fall due for the foreseeable future, in excess of twelve months. The Directors continue to adopt the going concern basis in preparing the annual report and accounts.

CREDITOR PAYMENT POLICY

For trade creditors, it is Southern Co-op's policy to:

- agree the terms of payment at the start of business with that supplier
- ensure that suppliers are aware of the terms of payment and
- pay in accordance with its contractual and other legal obligations

Southern Co-op does not follow a standard or code which deals specifically with the payment of suppliers. Trade creditor days of the Group for the 52 weeks ended 28 January 2024 were 37.0

days (35.8 days for the 52 week period ended 29 January 2023), based on the ratio of trade creditors at the end of the period to the amounts invoiced during the period by trade creditors.

DISCLOSURE OF INFORMATION TO AUDITOR

The Directors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which Southern Co-op's Auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that Southern Co-op's Auditor is aware of that information.

AUDITOR

Pursuant to Section 83 of the Co-operative and Community Benefit Societies Act 2014, BDO LLP are deemed to continue as Auditor, until such time as a resolution may be passed at a General Meeting of Southern Co-op appointing another auditor in their place.

STATEMENT OF COMPLIANCE WITH CODE ON WITHDRAWABLE SHARE CAPITAL

Southern Co-op follows a Code of Practice in relation to its Withdrawable Share Capital. As such it provides a statement to its Members of the nature of their shareholding investment and any changes affecting it. This can be found within the terms and conditions of membership on our website [Membership T and C's](#).

Members of Southern Co-op are shareholders, and are required to hold just one £1 share. As the shares held by Members are risk capital, Southern Co-op does not encourage its Members to hold more than the minimum amount required under its Rules, although the Rules allow it.

BOARD CERTIFICATION

The Annual Report and Financial Statements and notes on pages 194-121 are hereby signed on behalf of the Board of Directors pursuant to Section 80 of the Co-operative and Community Benefit Societies Act 2014.

Mark Ralf (Chair)

Anthony Scott - (Vice-Chair)

Tessa Briggs (Society Secretary)

13 May 2024