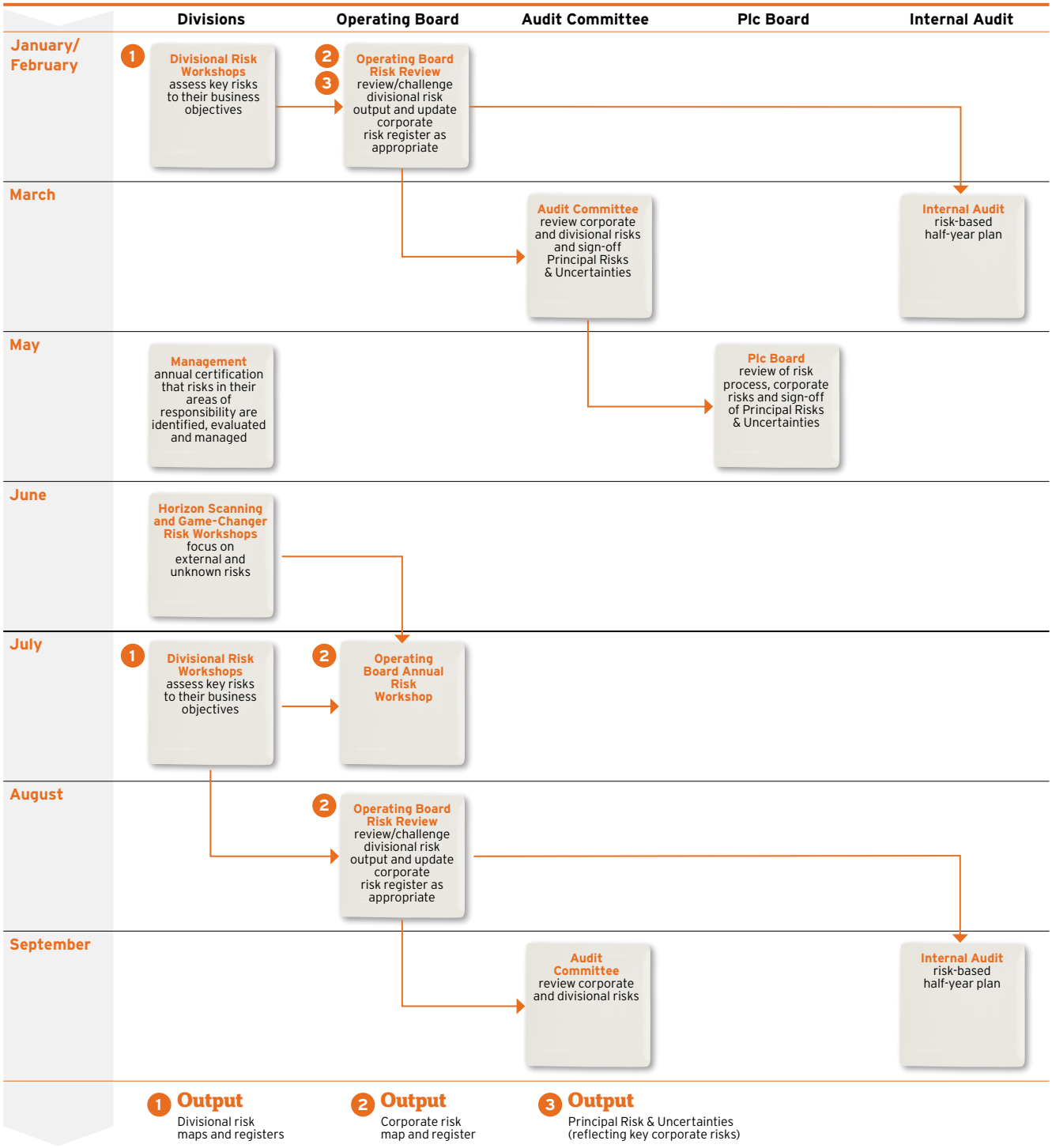
but not absolute, assurance that the risks in their areas of responsibility are appropriately identified, evaluated and managed;

- this divisional risk process is achieved through twice yearly workshops held by the divisional management and facilitated by Internal Audit. Each divisional management team produces and maintains a divisional key risk register. The likelihood and impact of each key risk is evaluated, management's risk appetite is discussed and actions deemed necessary to mitigate the risk are identified. In addition, the risks and the robustness of the mitigating controls are regularly reviewed by divisional management as part of their normal business activities;
- management certify annually (in May) that they are responsible for managing their business objectives and that the internal controls are such that they provide reasonable but not absolute assurance that the risks in their areas of responsibility are appropriately identified, evaluated and managed;
- the Operating Board reviews and challenges the output of the divisional risk process and then updates the overall corporate risk register as appropriate;
- game-changer and horizon scanning risk workshops are held annually to focus on external and unknown risks;
- the corporate and divisional risk registers form the basis of the risk based plan of Internal Audit for the subsequent half-year period;
- Internal Audit provides independent assurance to management and the Audit Committee as to the existence and effectiveness of the risk management process; and
- the Board reviews the risk process and corporate risks in May and approves the Company's Principal Risks and Uncertainties (as set out on page 51 to 53).

The risk management process is illustrated below:



Internal controls
The system of internal control encompasses all controls, including those relating to financial reporting processes (including the preparation of the consolidated Group accounts), operational and compliance controls and those relating to risk management processes. It also includes the controls over Sainsbury's interests in Sainsbury's Bank and property joint ventures.

The Audit Committee assesses the effectiveness of the internal controls systems on an ongoing basis, enabling a cumulative assessment to be made. The processes used during the year to support this assessment are as follows:

- discussion and approval by the Board of the Company's strategy, plans and objectives, and the risks to achieving them;
- review and approval by the Board of budgets and forecasts, including those for both revenue and capital expenditure;
- regular reviews by management of the risks to achieving objectives and mitigating controls and actions;
- regular reviews by management and the Audit Committee of the scope and results of the work of Internal Audit across the Company and of the implementation of their recommendations;
- regular reviews by the Audit Committee of the scope and results of the work of the external auditors and of any significant issues arising;
- regular reviews by the Audit Committee of accounting policies and levels of delegated authority; and
- regular reviews by the Board and the Audit Committee of material fraudulent activity and any significant whistleblowing by colleagues or suppliers, and actions being taken to remedy any control weaknesses.

Our Principal Risks & Uncertainties

The risk management process is closely aligned to our strategy, which focuses on growing the business through the addition of new range, space, business development, channels to market and property management. Risk is an inherent part of doing business. The management of these risks is based on a balance of risk and reward determined through careful assessment of both the potential likelihood and impact as well as risk appetite. Consideration is given to both reputational as well as financial impact, recognising the significant commercial value attributable to the Sainsbury's brand. Each principal risk and uncertainty is considered in the context of how it relates to the achievement of the Group's strategic objectives. The current business strategy and objectives are categorised into five areas of focus as follows:

The most significant principal risks identified by the Board and the corresponding mitigating controls are set out below in no order of priority.

Business continuity and major incidents response

Risk

A major incident or catastrophic event could impact on the Group's ability to trade.

Mitigation

Sainsbury's has detailed plans in place, supported by senior representatives who are trained in dealing with major incidents and have the authority levels to make decisions in the event of a potentially disruptive incident.

The Business Continuity Steering Group meets quarterly to ensure that the business continuity ('BC') policy and strategy is fit for purpose. In addition, it oversees the mitigation of all risks associated with BC and IT disaster recovery. In the event of any unplanned or unforeseen events the Business Continuity Management Team is convened at short notice to manage any associated risk to the business.

All key strategic locations have secondary backup sites which would be made available within pre-defined timescales and are regularly tested.

Business strategy

Risk

If the Board adopts the wrong business strategy or does not communicate or implement its strategies effectively, the business may be negatively impacted. Risks to delivering the strategy need to be properly understood and managed to deliver long-term growth for the benefit of all stakeholders.

Mitigation

A clear strategy remains in place with five key areas of focus:

- Great food;
- Compelling general merchandise & clothing;
- Complementary channels & services;
- Developing new business; and
- Growing space & creating property value.

Progress against these areas of focus and any risks to delivery, such as the availability of suitable new store sites, are regularly reviewed by the Board and the overall strategy is reviewed at the two-day Strategy Conference. The Operating Board also holds regular sessions to discuss strategy. This activity is supported by a dedicated strategy team. To ensure the strategy is communicated and understood, the Group engages with a wide range of stakeholders including shareholders, colleagues, customers and suppliers on a continual basis.

Colleague engagement, retention and capability

Risk

The Group employs around 157,000 colleagues who are critical to the success of our business. Attracting and maintaining good relations with talented colleagues and investing in their training and development is essential to the efficiency and sustainability of the Group's operations.

Mitigation

The Group's employment policies and remuneration and benefits packages are regularly reviewed and are designed to be competitive with other companies, as well as providing colleagues with fulfilling career opportunities. Colleague surveys, performance reviews, communications with trade unions and regular communication of business activities are some of the methods the Group uses to understand and respond to colleagues' needs. Processes are also in place to identify talent and actively manage succession planning throughout the business.

Data security

Risk

It is essential that the security of customer, colleague or company confidential data is maintained. A major breach of information security could have a major impact on the business.

Mitigation

Various information security policies and standards are in place which focus on encryption, network security, access controls, system security, data protection and information handling. A review of key contractors across the organisation who hold sensitive customer or colleague data is ongoing, and progress is monitored by the Information Security Committee. A risk based security testing approach across Sainsbury's IT infrastructure and applications is in place to identify and remediate ongoing vulnerabilities.

Developing new business

Risk

Exploring a range of new opportunities beyond our core business forms part of our five areas of focus. Robust identification and management of risks associated with the new business development agenda is essential to support successful delivery of objectives.

Mitigation

The existing risk management framework and processes embedded in the business extend to exploring new opportunities beyond the core. All projects have a steering group and subject matter experts are engaged as appropriate. A formal review and approval governance structure is also in place.

Environment and sustainability

Risk

Environment and sustainability are core to Sainsbury's values. The key risk facing the Group in this area relates to reducing the environmental impact of the business with a focus on reducing packaging and new ways of reducing waste and energy usage across stores, depots and offices.

Mitigation

A number of initiatives are in place, which are being led by the Environmental Action Team and the Corporate Responsibility & Sustainability Steering Group, to reduce our environmental impact and to meet our customers' expectations in this area. Further details are included in the Corporate Responsibility review on pages 43 to 45.

Financial strategy and treasury risk

Risk

The main financial risks are the availability of short and long-term funding to meet business needs, counterparty liabilities and fluctuations in interest and foreign currency rates which continue to be impacted by the turbulence in the financial markets.

Mitigation

The Group Treasury function is responsible for managing the Group's liquid resources, funding requirements and interest rate and currency exposures and the associated risks as set out in note 28 on page 104. The Group Treasury function has clear policies and operating procedures which are regularly reviewed and audited.

Health and safety – people and product

Risk

Prevention of injury or loss of life for both colleagues and customers is of utmost importance. In addition, it is paramount to maintaining the confidence our customers have in our business.

Mitigation

Clear policies and procedures are in place detailing the controls required to manage health and safety and product safety risks across the business and comply with all applicable regulations. These cover the end-to-end operation, from the auditing and vetting of construction contractors, to the health and safety processes in place in our depots, stores and offices to the controls in place to ensure people and product safety and integrity.

In addition, established product testing programmes are also in place to support rigorous monitoring of product traceability and provide assurance over product safety and integrity. Supplier terms and conditions and product specifications set clear standards for product/raw material safety and quality which suppliers are expected to comply with.

Process compliance is supported by external accreditation and internal training programmes, which are aligned to both health and safety laws and Sainsbury's internal policies. In addition, resource is dedicated to manage the risk effectively, in the form of the Group Safety Committee and specialist teams including Convenience Risk Managers and Logistics and Commercial Safety Specialists.

IT systems and infrastructure

Risk

The Group is reliant on its IT systems and operational infrastructure in order to trade efficiently. Inadequate systems or failure of key systems could have a significant impact on our business.

Mitigation

The Group has extensive controls in place to maintain the integrity and efficiency of its systems including detailed recovery plans in the event of a significant failure. New innovations and upgrades to systems are ongoing to improve both the customer experience and colleague efficiency. Prior to introducing system changes, rigorous testing is completed.