

# **WH SMITH PLC**

## **TERMS OF REFERENCE – AUDIT COMMITTEE**

### **1. COMPOSITION**

- 1.1 The Audit Committee shall be a Committee of the Board and its members appointed by the Board.
- 1.2 The Committee shall comprise not less than two independent non-executive directors of the Company of which at least one member will have recent and relevant experience. The Board shall appoint the Chairman of the Committee.
- 1.3 The Committee may invite the Chairman of the Board, Chief Executive, Finance Director, other directors, the heads of risk, compliance and internal audit and representatives from the finance function to attend for all or part of any meeting, as and when appropriate.
- 1.4 The external auditors shall attend meetings of the Committee on a regular basis. At least once a year, the Committee shall meet with the external and internal auditors, without senior management, to discuss matters relating to its remit and any issues arising from the audit.
- 1.5 The Company Secretary or his nominee shall be the Secretary to the Committee.
- 1.6 Each member shall hold office as a committee member for a period of up to three years, which may be extended by additional three-year periods, so long as the member continues to be an independent non-executive director.
- 1.7 The Chairman and members shall be listed each year in the Company's Annual Report.

### **2. MEETINGS**

- 2.1 The quorum for any meeting shall be two of the committee members present at all times or by telephone.
- 2.2 The Committee shall normally meet at least four times a year and additionally as and when required. The Chairman of the Committee may convene meetings at his discretion. A meeting of the Committee may be called by any member of the Committee or by the Secretary.
- 2.3 Notice of each meeting confirming the venue, date and time together with an agenda of items to be discussed and supporting papers where appropriate, shall be forwarded to each member of the Committee and to each other person invited to attend, not less than three working days prior to the date of the meeting. All reasonable efforts shall be made to give notice of meetings of the Committee to all members of it and to arrange such meetings so that members are able to attend them.
- 2.4 A member of the Committee may participate in a Committee meeting by telephone.
- 2.5 In the event of equality of votes, the Chairman of the Committee shall have a casting vote.
- 2.6 If any member of the Committee is unable to act for any reason, the Chairman of the Committee may appoint another non-executive director of the Company agreed by other members of the Committee to act as that member's alternate.

2.7 The members of the Committee shall serve on the Committee at the discretion of the Board and may be removed by the Board.

### 3. RESPONSIBILITIES

The Committee should carry out the duties below for the Group:

#### 3.1 Financial Reporting

- (a) monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain;
- (b) review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature. The executive management shall be responsible for the preparation of all documents to be reviewed by the Committee; and
- (c) review and challenge where necessary:
  - (i) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Group;
  - (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (iii) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - (iv) the clarity of disclosure in the Company's financial reports and the context in which statements are made;
  - (v) effectiveness of management procedures for financial reporting including the clarity and completeness of disclosures in the financial statements;
  - (vi) considering whether disclosures are set properly in context; and
  - (vii) all material information presented with the financial statements, such as the business review and the corporate governance statement (insofar as it relates to the audit and risk management).

#### 3.2 Internal Controls and Risk Management Systems

The Committee shall:

- (a) keep under review the effectiveness of the Company's internal controls and risk management systems;
- (b) consider major findings of internal investigations and management's response; and
- (c) review and approve the statements to be included in the Annual Report concerning internal controls and risk management.

### 3.3 Whistleblowing

The Committee shall review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

### 3.4 Internal Audit

The Committee shall:

- (a) monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- (b) approve the appointment and removal of the head of the internal audit function;
- (c) consider and approve the remit of the internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is independent of senior management or other restrictions;
- (d) review and assess the annual internal audit plan;
- (e) review promptly all reports on the Company submitted to it from the internal auditors;
- (f) review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
- (g) meet the head of internal audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the Chairman of the Board and to the Committee.

### 3.5 External Audit

The Committee shall:

- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- (b) oversee the relationship with the external auditor including (but not limited to):
  - (i) review their remuneration and recommend to the Board for approval, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
  - (ii) to review and agree the engagement letter with the external auditor at the start of each audit; to discuss with the external auditors before the audit commences and keep under review the scope and results of the audit, as well as whether the level of

- fee payable is appropriate for the provision of those services; and ensure co-ordination where more than one audit firm is involved;
- (iii) to consider the auditors' work plan for the annual and any interim audit and proposed resources in light of the scope of the audit;
  - (iv) to monitor the planned programme of audits and to ascertain the reason for any change or delay in the programme;
  - (v) assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non audit services;
  - (vi) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business);
  - (vii) agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
  - (viii) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
  - (ix) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
  - (x) meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
  - (xi) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
  - (xii) review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
    - (A) a discussion of any major issues which arose during the audit;
    - (B) any accounting and audit judgements;
    - (C) levels of errors identified during the audit; and
    - (D) the effectiveness of the audit;
  - (xiii) review any representation letter(s) requested by the external auditor before they are signed by management; and
  - (xiv) review the management letter and management's response to the auditor's findings and recommendations;
- (c) develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter; and

- (d) at the end of the annual audit cycle, assess the effectiveness of the audit process.

### 3.6 Reporting Responsibilities

The Company shall:

- (a) review the statement by the directors to be included in the annual accounts on the going concern status of the Company and the Group and any supporting assumptions and qualifications;
- (b) assist the Board by preparing a statement for inclusion in the directors' report for the Annual Report describing the roles and responsibilities of the Committee and actions taken by the Committee to discharge those responsibilities; as well as listing the names of all members of the committee, the number of committee meetings and attendance by each member;
- (c) produce for the Board's approval the statement for inclusion in the Annual Report in relation to internal control and the management of risk; and
- (d) if the external auditor provides non-audit services, to provide an explanation for inclusion in the Annual Report of how auditor objectivity and independence is safeguarded.

## **4. ANNUAL GENERAL MEETING**

- 4.1 The Chairman of the Committee shall attend the Annual General Meeting and be prepared to respond to any shareholder questions on the Committee's activities.

## **5. REPORTING PROCEDURE**

- 5.1 The Chairman of the Committee shall make a verbal report to the next meeting of the Board of matters considered by the Committee.
- 5.2 The Secretary shall circulate to all members of the Board and invited attendees the minutes of the meetings of the Committee after the approval and signature by the Chairman.

## **6. TERMS OF REFERENCE - REVIEW**

The Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

## **7. AUTHORITY**

- 7.1 The Committee is authorised to seek any information it requires from any employee of the company in order to perform its duties.
- 7.2 The Committee is authorised to obtain, at the company's expense, outside legal or other professional advice on any matters within its terms of reference.