

# **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 on the recommendation of the Nominations Committee in consultation with the Chair of the Committee.
- 1.2 The Committee shall comprise not less than three independent non-executive directors at least one of whom shall have recent and relevant financial experience and with competence in accounting and/or auditing. The members of the Committee as a whole must have competence relevant to the retail sector. The Chair of the Board shall not be a member of the Committee.
- 1.3 The Committee may invite the Chair of the Board, Chief Executive, Finance Director, other directors, the Director of Internal Audit and Risk and representatives from the finance function to attend for all or part of any meeting, as and when appropriate. The external auditors shall attend meetings of the Committee on a regular basis.
- 1.4 At least twice 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 programme.
- 1.5 The Company Secretary or his nominee shall be the Secretary to the Committee.
- 1.6 The Chair 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 Chair of the Committee may convene meetings at her discretion. A meeting of the Committee may be called by any member of the Committee or by the Secretary or at the request of the external audit lead partner or Director of Internal Audit and Risk if they consider it necessary.
- 2.3 Outside of the formal meeting programme, the Chair of the Committee will maintain a dialogue with key individuals involved in the Company's governance, including the Chair of the Board, the Chief Executive, the Finance Director, the external audit lead partner and the Director of Internal Audit and Risk.
- 2.4 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.
- 2.5 A member of the Committee may participate in a Committee meeting by telephone.
- 2.6 In the event of equality of votes, the Chair of the Committee shall have a casting vote.

- 2.7 If any member of the Committee is unable to act for any reason, the Chair 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.
- 2.8 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 and reporting to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor;
- (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, significant accounting policies both on a year on year basis and across the Company;
  - (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 and completeness 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;
  - (vii) the basis for the going concern assumption, identifying any material uncertainties to the Company's ability to continue over a period of at least twelve months from the date of the approval of the annual financial statements;
  - (viii) the statements to be made in the Annual Report relating to internal control, risk management and the Viability Statement including the disclosure of strategic risks and any mitigating actions;

- (ix) 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);
- (d) receive an annual report on the Company's tax affairs, with any major issues arising in the intervening period brought to their attention separately. The Committee will approve the Company's tax strategy prior to it being published; and
- (e) where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

### 3.2 Narrative Reporting

Where requested by the Board, the Committee should review the content of the Annual Report and Accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy and whether it informs the Board's statement in the Annual Report on these matters that is required under the Code.

### 3.3 Internal Controls and Risk Management Systems

The Committee shall:

- (a) where requested by the Board, provide advice on the assessment performed of the principal risks facing the Company in achieving its strategic objectives, including the management and mitigation of those risks;
- (b) keep under review the effectiveness of the Company's internal financial controls and internal control and risk management systems and, at least annually, carry out a review of their effectiveness, and report to the Board on the statement to be included in the annual report concerning internal controls and risk management;
- (c) ensure the Company has a suitable system and policy in relation to IT and cyber-security;
- (d) consider major findings of internal investigations and management's response; and
- (e) review and approve the statements to be included in the Annual Report concerning internal control, risk management and the Viability Statement.

### 3.4 Compliance, whistleblowing and fraud

The Committee shall:

- (a) review the adequacy and security of the Company's arrangements for its employees and business partners 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;
- (b) review the Company's procedures for detecting fraud; and
- (c) review the adequacy and effectiveness of the Company's systems and controls relating to bribery, money-laundering and data protection and receive reports on non-compliance.

### 3.5 Internal Audit

The Committee shall:

- (a) review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work, and annually approve the internal audit charter ensuring it is appropriate for the current needs of the organisation;
- (b) approve the appointment and removal of the Director of Internal Audit and Risk;
- (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 approve the annual internal audit plan to ensure it is aligned to the key risks of the business, and receive regular reports on work carried out;
- (e) ensure the internal auditor has direct access to the Board Chair and to the Committee Chair, providing independence from the executive and accountability to the Committee;
- (f) carry out an annual assessment of the effectiveness of the internal audit function; and as part of this assessment:
  - (i) meet with the Director of Internal Audit and Risk without the presence of management to discuss the effectiveness of the function;
  - (ii) review and assess the annual internal audit work plan;
  - (iii) receive a report on the results of the internal auditor's work;
  - (iv) determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business;
  - (v) review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function; and
  - (vi) monitor and assess the role and effectiveness of the internal audit function in the overall context of the Company's risk management system and the work of compliance, finance and the external auditor.

### 3.6 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;
- (b) ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;

- (c) if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (d) oversee the relationship with the external auditor including (but not limited to):
  - (i) negotiate and agree their remuneration and, consider whether fees for audit or non-audit services and the level of fees is appropriate to enable an effective and high quality 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 law, regulation, the FRC Ethical Standard 2016 (the 'Ethical Standard') and other professional requirements and the relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats 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) which could adversely affect the auditor's independence and objectivity;
  - (vii) agreeing with the Board a policy on the employment of former employees of the Company's auditor, taking into account the Ethical Standard and legal requirements, and monitoring the implementation of this policy;
  - (viii) monitor the auditor's processes for maintaining independence, its compliance with relevant laws, regulation, the Ethical Standard and other professional guidance, including the guidance on the rotation of audit partner and staff;
  - (ix) monitor the level of fees paid by the Company to the external auditor compared to the overall fee income of the firm, office and partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standard;
  - (x) assessing annually the 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;
  - (xi) seek to ensure coordination of the external audit with the activities of the internal audit function;
  - (xii) evaluating the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee;

- (xiii) develop and recommend to the board the Company's formal policy on the provision of non-audit services by the auditor, including approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:
  - threats to the independence and objectivity of the external auditor and any safeguards in place;
  - the nature of the non-audit services;
  - whether the external audit firm is the most suitable supplier of the non-audit service;
  - the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
  - the criteria governing compensation;
- (xiv) 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;
- (xv) consider whether the auditor's overall work plan, including planned levels of materiality, and proposed resources to execute the audit plan appears consistent with the scope of the audit engagement, having regard also to the seniority, expertise and experience of the audit team; and
- (xvi) review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
  - a discussion of any major issues which arose during the audit;
  - the auditor's explanation of how the risks to audit quality were addressed;
  - key accounting and audit judgements;
  - the auditor's view of their interactions with senior management; and
  - levels of errors identified during the audit;
- (e) review any representation letter(s) requested by the external auditor before they are signed by management;
- (f) review the management letter and management's response to the auditor's findings and recommendations; and
- (g) review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee.

### 3.7 Reporting Responsibilities

- (a) The Chair of the Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how the Committee has discharged its responsibilities. This report shall include:
  - (i) the significant issues that the Committee considered in relation to the financial statements (required under paragraph 3.1) and how these were addressed;
  - (ii) an assessment of the effectiveness of the external audit process (required under paragraph 3.6 (d)(ix)) and a recommendation on the appointment or re-appointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans; and
  - (iii) any other issues on which the Board has requested the Committee's opinion.
- (b) The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- (c) The Committee shall compile a report on its activities to be included in the Company's Annual Report. The report should include an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor; and all other information requirements set out in the Code.
- (d) In compiling the reports referred to in 3.7(a) and (c) above, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern. The report to shareholders need not repeat information disclosed elsewhere in the Annual Report and Accounts, but could provide cross-references to that information.

#### **4. ANNUAL GENERAL MEETING**

The Chair 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 Chair of the Committee shall make a verbal report to the next meeting of the Board of matters considered by the Committee.
- 5.2 The Chair of the Committee shall make whatever recommendations to the Board the Chair deems appropriate on any area within the Committee's remit where action or improvement is needed.
- 5.3 The Secretary shall circulate to all members of the Board and invited attendees the minutes of the meetings of the Committee after the approval by the Chair.

#### **6. AUTHORITY**

- 6.1 The Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties.
- 6.2 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.

6.3 The Committee is authorised to call any employee to be questioned at a meeting of the Committee as and when required.

6.4 The Committee has the right to publish in the Company's Annual Report, details of any issues that cannot be resolved between the Committee and the Board.

## **7. OTHER MATTERS**

The Committee shall:

7.1 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.

7.2 Have access to sufficient resources in order to carry out its duties, including access to the company secretariat as required.

7.3 Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.

7.4 Give due consideration to laws and regulations, the provisions of the Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate including compliance with all applicable accounting standards.

7.5 Be responsible for co-ordination of the internal and external auditors.

7.6 Oversee any investigation of activities which are within its terms of reference.

7.7 Work and liaise as necessary with all other board committees.

7.8 Make available these Terms of Reference, setting out the role and authority delegated to it by the Board.