

## **DS SMITH PLC – AUDIT COMMITTEE TERMS OF REFERENCE**

### **Membership**

1. The Board shall appoint an Audit Committee comprising at least three independent non-Executive Directors, one of whom will be appointed as Chairman of the Committee. The Committee shall include at least one member of the Remuneration Committee. The Group Company Secretary shall be the Secretary of the Committee.

Appointments to the Committee are made on the recommendation of the Nomination Committee and in consultation with the Chairman of the Audit Committee. At least one member shall have significant recent and relevant financial experience. A quorum shall be two members. Appointments to the Committee shall be for a period of up to three years, which may be extended for further periods of up to three years, provided the Director still meets the criteria for membership of the Committee

### **Attendance at Meetings**

2. The Chairman of the Board, the Group Chief Executive, the Group Finance Director, other Directors, representatives from Internal Audit (currently outsourced to KPMG), the Company's external auditors, members of the Company's management and external advisors may attend meetings in whole or in part if invited by the Committee.
3. There should be at least one meeting a year, or part thereof, where the external auditors attend without management present, and similarly, where a representative from Internal Audit attends without management present.

### **Frequency of Meetings**

4. Meetings shall be held not less than three times a year and, where appropriate, should coincide with key dates in the Company's financial reporting cycle.
5. External auditors or internal auditors may request a meeting if they consider that one is necessary. Outside of the formal meeting programme, the Committee Chairman will maintain a dialogue with key individuals involved in the Company's governance, including the Chairman of the Board, the Group Chief Executive, the Group Finance Director, the external audit lead partner and representatives from Internal Audit. Other Committee members may maintain similar dialogues.

### **Responsibilities and Duties**

6. Unless required otherwise by regulation, the Committee should carry out the duties below for the parent company, major subsidiary undertakings and the Group as a whole, as appropriate.

#### **6.1 Financial Reporting**

- a) The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, interim management statements, preliminary announcements and any other formal statements relating to its financial performance, and review and report the Board on any

significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor.

- b) In particular, the Committee shall review and challenge where necessary:
  - i. the application of significant accounting policies and any changes to them;
  - ii. the methods used to account for significant or unusual transactions where different approaches are possible;
  - iii. whether the Company has adopted appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor on the financial statements; and
  - iv. all material information presented with the financial statements, including the strategic report and the corporate governance statement (insofar as it relates to the audit and to risk management).
- c) The Committee shall undertake an initial review of any other statements requiring Board approval which contain financial information, where to carry out a review prior to Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules or Disclosure Guidance and Transparency Rules sourcebook.
- d) 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.

## **6.2 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.

## **6.3 Internal Controls and Risk Management Systems**

The Committee shall:

- a) keep under review the adequacy and effectiveness of the Company's internal financial controls that identify, assess, manage and monitor financial risks and other internal control and risk management systems; and
- b) review and approve the statements to be included in the annual report concerning internal controls, risk management and the viability statement.

## **6.4 Compliance, Whistleblowing and Fraud**

The Committee shall:

- a. review the adequacy and security of the Company's arrangements for its employees and contractors 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 Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

## 6.5 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 and the work of finance and the external auditor 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 head of the internal audit function or if the function is outsourced, the supplier of Internal Audit services;
- c) consider and approve the remit of the internal audit function and ensure it has appropriate scope, the necessary 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 free from management or other restrictions;
- d) review and assess 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) carry out an annual assessment of the effectiveness of the internal audit function; and as part of this assessment:
  - i. meet with the head of internal audit 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; and
  - 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;
- f) The head of internal audit shall be given the right of direct access to the Chairman of the Board and to the Committee.

## 6.6 External Audit

The Committee shall:

- a. consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, 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; in respect of such tender the Committee shall 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 the Committee shall 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. approving their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
    - ii. approving their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
    - iii. assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements, the Ethical Standard 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;
    - iv. 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;
    - v. agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
    - vi. monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and assessing these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standard;
    - vii. assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
    - viii. seeking to ensure co-ordination with the activities of the internal audit function; and
    - ix. 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.
  - e. 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 the auditor's remit and any issues arising from the audit;
  - f. discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;

- g. review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, including adequate coverage of the Group's activities and net assets;
- h. review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
  - i. the significant areas of risk assessed by the external auditor;
  - ii. a discussion of any major issues which arose during the audit;
  - iii. any accounting and audit judgements;
  - iv. levels of errors identified during the audit; and
  - v. the effectiveness of the audit.

The Committee shall also:

- i. review any representation letter(s) requested by the external auditor before they are signed by management;
- j. review the management letter and management's response to the auditor's findings and recommendations;
- k. 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; and
- l. maintain a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter. The policy should include consideration of the following matters:
  - i. threats to the independence and objectivity of the external auditor and any safeguards in place;
  - ii. the nature of the non-audit services;
  - iii. whether the external audit firm is the most suitable supplier of the non-audit service;
  - iv. the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
  - v. the criteria governing compensation.

### **Reporting Responsibilities**

- 7. The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. This report shall include:
  - a) the significant issues that it considered in relation to the financial statements (required under paragraph 6.1 (a)) and how these were addressed;
  - b) its assessment of the effectiveness of the external audit process (required under paragraph 6.6 (k) (iii) the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans; and
  - c) any other issues on which the Board has requested the Committee's opinion.

8. Draft minutes of committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board unless it would be inappropriate to do so.
9. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
10. The Committee shall produce a report on its activities to be included in the Company's annual report. The report should include confirmation that 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.
11. In compiling the reports referred to in (7) and (10) 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 been included as significant areas of risk, those that have informed the Board's assessment of whether the Company is a going concern and the appropriateness of the Board's viability statement. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.
12. The Chairman of the Audit Committee should attend the Annual General Meeting to answer shareholder questions.

### **Other Matters**

13. The Committee shall:
  - a) have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
  - b) 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;
  - c) 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;
  - d) be responsible for co-ordination of the internal and external auditors;
  - e) oversee any investigation of activities which are within its terms of reference;
  - f) work and liaise as necessary with all other Board committees, taking particular account of the impact of risk management and internal controls being delegated to different committees; and
  - g) arrange for periodic reviews of its own performance and, at least annually, review its 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.

### **Authority**

14. The Committee is authorised:
- a) to seek any information it requires from any employee of the Company in order to perform its duties;
  - b) to obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference;
  - c) to call any employee to be questioned at a meeting of the Committee as and when required; and
  - d) to have the right to publish in the Company's annual report details of any issues that cannot be resolved between the Committee and the Board.

Approved by the Board of Directors of DS Smith Plc on 26 June 2017.