



# Dunelm Group plc

## **Audit and Risk Committee Terms of Reference**

### ***Updated on 7 September 2016***

#### **1. Membership**

- 1.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nominations Committee in consultation with the Chairman of the Audit and Risk Committee. The Committee shall consist of not less than three members.
- 1.2 All members of the Committee shall be independent non-executive directors of the Company with a range of skills, experience, knowledge and professional qualifications. The Committee as a whole should have competence relevant to the sector in which the Group operates and at least one member should have significant, recent and relevant financial experience, and ideally should hold a professional qualification from one of the professional accountancy bodies.
- 1.3 The Chairman of the Board shall not be a member of the Committee unless exceptional circumstances apply, such when there is a vacancy amongst the non-executive directors.
- 1.4 The Chairman of the Committee shall be appointed by the Board from amongst the independent non-executive directors. In the absence of the Committee Chairman and / or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.
- 1.5 Appointments to the Committee shall be for a period of up to three years, which may be extended for two further periods of up to three years, provided the director still meets the criteria for membership of the Committee,

#### **2. Secretary**

- 2.1 The Company Secretary or his or her nominee shall act as the Secretary to the Committee.
- 2.2 The Company Secretary shall ensure that the Committee receives information and papers in a timely manner to enable proper consideration of the relevant issues.

#### **3. Quorum**

- 3.1 A quorum shall be two members.
- 3.2 A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

#### **4. Attendance at meetings**

- 4.1 Only members of the Committee shall be entitled to attend Committee meetings.
- 4.2 The Chairman of the Board, other non-executive directors, the Chief Executive, Chief Financial Officer, representatives of the external auditors, or other persons shall attend all or part of any meeting at the invitation of the Committee as and when appropriate and necessary.
- 4.3 The external auditor will be invited to attend meetings of the Committee on a regular basis.

4.4 There should be at least one meeting a year, or part thereof, where the Committee meets the external auditors without executive Board members present.

## 5. Frequency of meetings

5.1 Meetings shall be held not less than twice a year (to coincide with key dates in the Company's financial reporting and audit cycle).

## 6. Notice of meetings

6.1 Meetings of the Committee shall be summoned by the Secretary of the Committee, at the request of any of its members or at the request of external or internal auditors if they consider it necessary.

6.2 Unless otherwise agreed, notice of each meeting, confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other persons required to attend and all other non-executive directors, no later than 5 working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

## 7. Minutes of meetings

7.1 The Secretary shall minute the proceedings and resolutions of all meetings, of the Committee, including recording the names of those present and in attendance.

7.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

7.3 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all other members of the Board. The Committee chair may redact parts of the minutes prior to circulation to the Board if he or she considers that it would be inappropriate to do so.

## 8. Authority

8.1 The Committee should consider key matters of its own initiative rather than relying solely on the work of the external auditor. The Committee should discuss what information and assurance it requires in order to properly carry out its roles to review, monitor and provide assurance or recommendations to the board and, where there are gaps, how these should be addressed. The Committee should satisfy itself that these sources of assurance and information are sufficient and objective.

8.2 The Committee is authorised:

- (a) to investigate any activity within its terms of reference;
- (b) to seek any information that it requires from any employee of the Company in order to perform its duties;
- (c) to call any employee to be questioned at a meeting of the Committee as and when required; and
- (d) to obtain, at the Company's expense, outside legal or independent professional advice on any matter within its terms of reference.

## 9. Duties

The duties of the Committee shall be:

### 9.1 Financial reporting

- (a) The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half year reports, interim management statements, and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain.
- (b) In particular the Committee shall review and challenge where necessary:
  - a. The consistency of, and any changes to accounting policies both on a year on year basis and across the Company / group
  - b. The methods used to account for significant or unusual transactions where different approaches are possible;
  - c. Whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditors;
  - d. The clarity of disclosure in the Company's financial reports and the context in which statements are made;

- e. All material information presented with the financial statements, such as the business review/operating and financial review and the corporate governance statement (insofar as it related to audit and risk management);
  - f. Whether the annual report and accounts is “fair, balanced and understandable”, and provides the information necessary for shareholders to assess the Company’s performance, business model and strategy.
- (c) The Committee shall evaluate any risks to the quality and effectiveness of the financial reporting process.
- (f) to assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks; in doing so to consider the level of assurance that it is getting on the risk management and internal control systems, including internal financial controls, and whether this is enough to help the Board in satisfying itself that they are operating effectively;
  - (g) to review the Company’s procedures for detecting fraud;
  - (h) to review the Company’s systems and controls for the prevention of bribery and receive reports on non-compliance;
  - (j) to consider annually whether there is a need for an internal audit function where no such function exists;

## 9.2 Internal Controls and Risk Management Systems

- (a) To review the Company’s procedures for detecting fraud and whistle blowing to ensure that arrangements are in place by which colleagues and contractors may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or other matters; the Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- (b) To recommend to the Board and review the Company’s risk profile, highlighting to the Board the nature and extent of the significant risks that the Company is exposed to;
- (c) to keep under review the effectiveness of the systems for internal financial control, financial reporting, internal control and risk management;
- (d) to monitor the integrity of the Company’s internal financial controls;
- (e) to review the statement in the annual report and accounts on risk, the Company’s internal controls and risk management framework, and the viability and going concern statement;

## External audit

- (a) to oversee the Company’s relations with external auditors;
- (b) to consider, and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, on the appointment, reappointment or removal of the external auditors;
- (c) to oversee the selection process for new external auditors, if necessary, if any auditor resigns, to investigate the issues leading to this and decide whether any action is required;
- (d) to ensure that the external audit contract is put out to tender at least every 10 years and is rotated at least 20 years, and to oversee the tender process;
- (e) to approve the terms of engagement and the remuneration to be paid to the external auditors in respect of audit and non-audit services provided and to consider whether the level of fees is appropriate to enable an adequate audit to be conducted;

- (f) to assess annually the qualification, expertise and resources, effectiveness and independence of the external auditors, taking into account relevant UK professional and regulatory requirements and the Company's overall relationship with the external auditors. Steps to consider include:
  - (i) seeking reassurance that the auditors and their staff have no family, financial, employment, investment or business relationship with the Company (other than in the normal course of business);
  - (ii) seeking from the external auditors, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant ethical and professional guidance, including the rotation of audit partners and staff;
  - (iii) monitoring the level of fees that the Company pays in proportion to the overall fee income of the firm, office and partner and other related regulatory requirements;
  - (iv) agreeing with the Board and monitoring the Company's policy for the employment of former employees of the external auditors, then monitoring the implementation of this policy; and
  - (v) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditors on their own internal quality procedures;
  - (vi) a review of Audit Quality Inspection Report issued by the Financial Reporting Council annually;
- (g) to discuss with the external auditors, before the audit commences, the nature and scope of the audit and the audit plan, to ensure that it is consistent with the scope of the audit engagement;
- (h) to review with the external auditors the findings of their work, including: any major issues that arose during the course of the audit and have subsequently been resolved; major issues that have been left unresolved; any accounting and audit judgements; levels of errors identified during the audit, obtaining explanations as to why certain errors might remain unadjusted;
  - (i) to review the audit representation letters before consideration by the Board, giving particular consideration to matters that relate to non- standard issues;
  - (j) at the end of the audit cycle, to assess the effectiveness of the audit process by:
    - (i) reviewing whether the external auditors have met the agreed audit plan and understanding the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks;
    - (ii) considering the robustness and perceptiveness of the external auditors in their handling of the key accounting and audit judgements identified and in responding to questions from the Committee, and in their commentary, where appropriate, on the systems of internal control;
    - (iii) obtaining feedback about the conduct of the audit from key people involved;
    - (iv) reviewing and monitoring the conduct of the external auditors' management letter, in order to assess whether it is based on a good understanding of the Company's business and to establish whether recommendations have been acted on and, if not, the reasons why they have not been acted on;

- (k) to develop and recommend to the Board the Company's policy in relation to the provision of non-audit services by the external auditors and ensure that the provision of such services does not impair the external auditors' independence or objectivity. In doing so, the Committee should take into account any relevant ethical guidance on the matter.

## 9.4 Internal audit programme

- (a) Monitor and review the effectiveness of the company's internal audit programme in the context of the Company's overall risk management system;
- (b) review and assess the annual internal audit programme;
- (c) ensure that the persons appointed to conduct internal audit activities have adequate resources and appropriate access to information, that they have appropriate skills and qualifications and are free from management or other restrictions;
- (d) review the internal audit reports, which will be addressed to the committee;
- (e) review and monitor management's responsiveness to the findings and recommendations made in internal audit reports;
- (f) ensure that persons carrying out internal audit activities have the opportunity to attend Committee meetings on request, and have the right of direct access to the chairman of the Board and to the Committee.

## 10. Reporting

- 10.1 The Chairman of the Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 10.2 The Committee shall make whatever recommendation to the Board it deems appropriate on any area within its remit where action or improvement is needed.

- 10.3 The Committee shall prepare a report on its roles and responsibilities and the actions it has taken to discharge those responsibilities for inclusion in the annual report and accounts. Such a report should specifically include:

- (a) summary of the role of the Committee;
- (b) The names and qualifications of all members of the Committee during the period;
- (c) The number of Committee meetings and attendance by each member;
- (d) The way the Committee has discharged its responsibilities;
- (e) Significant issues considered in relation to the annual report and accounts and how these matters were addressed; having regard to the matters communicated by the auditors;
- (f) how the Committee's performance evaluation has been conducted;
- (g) other disclosures recommended by applicable regulatory requirements and guidance.

- 10.4 Where disagreements between the Committee and the Board cannot be resolved, the Committee shall report the issue to the shareholders as part of the report on the Committee's activities in the annual report.
- 10.5 If the Board does not accept the Committee's recommendation regarding the appointment, re-appointment and removal of the external auditors, the Committee shall include a statement explaining its recommendation and reasons why the Board has taken a different stance in the annual report.
- 10.6 The Chairman of the Committee shall attend the AGM to respond to questions on the Committee's areas of responsibility.

## 11. Other matters

The Committee shall:

- 11.1 Periodically review its terms of reference and its own effectiveness and recommend any changes to the Board;
- 11.2 have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;
- 11.3 give due consideration to laws and regulations, the provisions of the Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate;
- 11.4 oversee any investigation of activities which are within its terms of reference;
- 11.4 be provided with appropriate and timely training, both in form of an induction programme for new members and on an ongoing basis for all members. This should include an understanding of the principles of and developments in corporate reporting and regulation; and
- 11.6 be responsible for the co-ordination of the internal and external auditors.

Adopted by the Audit and Risk Committee  
7 September 2016