



**AO WORLD PLC (the "Company")**  
**TERMS OF REFERENCE FOR THE AUDIT COMMITTEE**

**1. CONSTITUTION**

1.1 The Committee has been established by resolution of the board of directors of the Company (the "**Board**") and is to be known as the Audit Committee.

**2. MEMBERSHIP**

2.1 The Board shall appoint the chairman of the Audit Committee (the "**Chairman**"). In absence of the Chairman and any appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

2.2 The members of the Audit Committee shall be appointed by the Board, on the recommendation of the Nomination Committee, in consultation with the Chairman.

2.3 The Audit Committee shall consist of at least three members at least two of whom are independent non-executive directors. The chairman of the Board may not be a member of the Audit Committee.

2.4 At least one member of the Audit Committee shall have recent and relevant financial experience.

2.5 Appointments to the Audit Committee shall be for a period of up to three years, which may be extended by no more than two additional three year periods, provided the director remains independent

2.6 The Board shall regularly review the membership of the Audit Committee to ensure that membership is refreshed and undue reliance is not placed on particular individuals.

**3. QUORUM**

A quorum shall be two members, at least one of whom must have recent and relevant financial experience. A duly convened meeting of the Audit 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 Audit Committee.

**4. ATTENDANCE AT MEETINGS**

4.1 No one other than the Chairman, and members, of the Audit Committee is entitled to be present or vote at a meeting of the Audit Committee.

4.2 However, other individuals, such as the chief executive, chief financial officer, finance director, other directors, heads of internal audit, risk and compliance, and other senior finance personnel, may be invited by the Audit Committee to attend all or part of any meeting as and when appropriate and necessary.

4.3 The external auditors shall be invited to attend meetings of the Audit Committee on a regular basis. There should be at least one meeting, or part of a meeting, each year which

the external auditors attend without management present to discuss matters relating to its remit and any issues arising from the audit.

## 5. **SECRETARY**

5.1 The Company Secretary or his/her nominees shall act as the secretary of the Audit Committee (the "**Secretary**").

5.2 The Secretary shall ensure that the Audit Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

5.3 The Secretary shall keep a record of:

5.3.1 the membership, and the dates of any changes to the membership, of the Audit Committee;

5.3.2 any non-audit services provided by the external auditor to enable the company to make the necessary statement in the annual report on safeguarding the auditor's objectivity and independence.

## 6. **FREQUENCY OF MEETINGS**

6.1 Meetings shall be held at such times as the Audit Committee in consultation with the Company Secretary, deems appropriate, and in any event shall be held not less than three times a year. There should be as many meetings as the audit committee's roles and responsibilities require. Where appropriate, meetings should coincide with key dates in the Company's financial reporting cycle.

6.2 External auditors or internal auditors may request a meeting if they consider that one is necessary.

## 7. **PROCEEDINGS**

7.1 Unless varied by these terms of reference, meetings and proceedings of the Audit Committee will be governed by the provisions of the Company's Articles of Association regarding the meetings and proceedings of directors.

7.2 Meetings of the Audit Committee shall be called by the Secretary at the request of the Chairman or any other member thereof or at the request of internal or external auditors if they consider necessary.

7.3 Unless otherwise agreed or determined by the chairman of the Audit Committee, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed and supporting papers, shall be sent to each member of the Audit Committee, any other person required to attend and all other non-executive directors not later than 48 hours prior to the date of the meeting.

7.4 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interests and minute them accordingly. The Secretary shall record the proceedings and resolutions of meetings of the Audit Committee, including the names of those present and in attendance. The Secretary shall circulate the draft minutes of such meetings to all members of the Audit Committee promptly. Once agreed, the minutes shall be circulated by the Secretary to all members of the Board, unless a conflict of interest exists or the Audit Committee decides it would be inappropriate to do so.

## 8. **AUTHORITY**

8.1 The Audit Committee is authorised by the Board at the expense of the Company to investigate any matter within its terms of reference. It is authorised to seek any information that it requires from any employee or any director in order to perform its duties and all

employees and directors are directed to cooperate with any requests made by the Audit Committee.

8.2 The Audit Committee is authorised by the Board to obtain external legal, accounting or other professional advice at the expense of the Company but within any budgetary restraints imposed by the Board and to secure the attendance of third parties with relevant experience and expertise at meetings of the Audit Committee if it considers this necessary.

8.3 These terms of reference may be amended from time to time by the Board.

## 9. DUTIES

The responsibilities of the Audit Committee shall be:

### 9.1 Financial reporting

9.1.1 To monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, interim management statements and any informal reports, such as preliminary statements of annual accounts, analyst presentations, and to review, and report to the Board on, the significant financial reporting issues and judgments which they contain, having regard to matters communicated by the auditor;

9.1.2 To report its views to the Board if it is not satisfied with any aspect of the proposed financial reporting by the Company;

9.1.3 In relation to 9.1.1, in particular to review and challenge where necessary:

- (A) significant accounting policies and practices, and any changes to them and any significant estimates or judgements;
- (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 auditor;
- (D) the clarity and completeness of disclosure in the company's financial statements and whether such disclosures are properly set in context;
- (E) significant adjustments resulting from the audit;
- (F) the going concern assumption;
- (G) compliance with accounting standards;
- (H) compliance with stock exchange and other legal requirements;
- (I) all material information presented with financial statements, including the business review and corporate governance statements relating to the audit and to risk management;

9.1.4 If requested to do so by the Board to review the contents of the annual report and accounts and advise the Board 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;

9.1.5 Whenever practicable, to review any other statements containing financial information for which Board approval is required;

## 9.2 Internal controls and risk management systems

- 9.2.1 To review the adequacy and effectiveness of the Company's internal financial controls and the Company's other internal control and risk management systems;
- 9.2.2 To review reports received from the Company's management on the effectiveness of the internal control and risk management systems established and the conclusions of any testing carried out by the internal or external auditors;
- 9.2.3 To review and approve statements to be included in the annual report concerning internal controls and risk management;

## 9.3 Whistleblowing

- 9.3.1 To review arrangements by which employees of the Company and contractors may, in confidence, raise concerns about possible wrongdoing in matters of financial reporting or other matters and ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action;
- 9.3.2 To review the Company's procedures/systems and controls for:
  - (A) detecting fraud;
  - (B) preventing bribery;
  - (C) identifying money laundering; and
  - (D) ensuring compliance with relevant legal and regulatory requirements;
- 9.3.3 To review reports (i) on compliance with anti-bribery procedures, (ii) from the Money Laundering Reporting Officer and (iii) from the Compliance Officer;

## 9.4 Internal audit

- 9.4.1 To monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- 9.4.2 To approve the appointment and removal of the head of the internal audit function and to ensure the head of the internal audit is accountable to the Audit Committee;
- 9.4.3 To 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 Audit Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- 9.4.4 To review and assess the annual internal audit plan;
- 9.4.5 To review reports addressed to the Audit Committee from the internal auditor;
- 9.4.6 To review and monitor management's responsiveness to the findings and recommendations of the internal auditor;
- 9.4.7 To consider the impact on the effectiveness of the Company's overall arrangements for internal control and on investor perceptions if there is a

proposal that the Company's external auditor should undertake aspects of the internal audit function.

- 9.4.8 To meet the head of internal audit at least once a year, without management being present, to discuss the function 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, at any time as the need arises, to the chairman of the Board and to the Audit Committee.

## 9.5 External audit

### (A) Output of audit

- 9.5.1 To assess annually, and report on the Board on, the qualification, expertise and resources, and independence of the external auditor and the effectiveness of the audit process (including a report from the external auditor on their own internal quality procedures) and to include in its assessment a recommendation on whether to propose to shareholders that the external auditor should be re-appointed;
- 9.5.2 As part of assessing the effectiveness of the audit process annually,
- (A) to review whether the external auditor has met the agreed audit plan and understand the reasons for any changes,
  - (B) to consider the robustness and perceptiveness of the external auditors in their handling of key accounting and audit judgements identified,
  - (C) to obtain feedback about the conduct of the audit from key employees engaged in the process,
  - (D) to review and monitor the content of the external auditor's management letter and to establish whether recommendations have been acted upon and if not, the reasons why they have not been acted upon.
- 9.5.3 To seek to ensure co-ordination between the external auditor and the activities of the internal audit function;
- 9.5.4 To 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 out of the audit;
- 9.5.5 To review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- 9.5.6 To review the findings of the audit with the external auditor, including but not limited to:
- (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.

9.5.7 To review any representation letter(s) requested by the external auditor before they are signed by management and give particular consideration to matters where representation has been requested that relate to non-standard issues;

9.5.8 To review and monitor management's responsiveness to the external auditor's findings and recommendations;

**(B) Independence of auditor, including non-audit services**

9.5.9 To assess annually the independence and objectivity of the external auditor, and the effectiveness of the audit process, taking into account relevant UK professional and regulatory requirements and the relationship with the external auditor as a whole, including the provision of any non-audit services;

9.5.10 To satisfy itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the external auditor's independence and objectivity, taking into account the relevant Ethical Standards for Auditors;

9.5.11 To develop and implement the Company's policy in relation to the engagement of the external auditor for the provision of non-audit services, keep the policy under review in order to ensure that the provision of such services does not impair the external auditor's independence or objectivity and to report to the Board on the implementation of the policy and any recommendations on action/improvements to be taken;

9.5.12 To seek information from the external auditor, on an annual basis, about its policies and procedures for maintaining independence and monitoring compliance with relevant requirements, including regarding the rotation of audit partners and staff;

9.5.13 In relation to the provision of non-audit services, in particular to consider:

(A) whether the skills and experience of the audit firm make it the most suitable supplier of the non-audit services;

(B) whether there are safeguards in place to eliminate or reduce to an acceptable level any threat to objectivity and independence in the conduct of the external audit resulting from the provision of such services by the external auditor;

(C) the nature and extent of the non-audit services;

(D) the fees incurred, or to be incurred, for non-audit services both for individual services and in aggregate, relative to the audit fee; and

(E) the criteria which govern the compensation of the individuals performing the audit;

9.5.14 To set and apply a formal policy specifying the types of non-audit service for which the use of the external auditor is pre-approved; for which specific approval from the Audit Committee is required; and from which the external auditor is excluded;

9.5.15 To ensure that, if the external auditor provides non-audit services, an explanation is provided for the shareholders in the annual report on how the external auditor's objectivity and independence is safeguarded, setting out the Audit Committee's policy on the provision of non-audit services and disclosing

the details set out in the FRC Guidance on Audit Committee in relation to each significant engagement;

- 9.5.16 To agree with the Board a policy on the employment of former employees of the Company's external auditor and then monitor the implementation of this policy;
- 9.5.17 To monitor the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners and the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;

**(C) Appointment, resignation, fees and tendering**

- 9.5.18 To be responsible for overseeing the Company's relations with the external auditor;
- 9.5.19 To consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, on the appointment, reappointment and removal of the external auditors;
- 9.5.20 To consider when the external audit contract should be put out to tender taking into account the requirement in the Governance Code for FTSE 350 companies to put the external audit contract out to tender at least once every ten years;
- 9.5.21 If and when the Company puts the external audit contract out to tender, to oversee the external audit tendering process and as part of that process to ensure that all tendering firms have access as necessary to information and individuals during the tendering process and to compare the quality and effectiveness of the services provided by the external auditor with those of other audit firms;
- 9.5.22 To approve the external auditor's terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- 9.5.23 To approve the remuneration to be paid to the external auditor in respect of audit services provided and to satisfy itself that the level of fee payable is appropriate and that an effective, high quality audit can be conducted for such a fee;
- 9.5.24 If the external auditor resigns, to investigate the issues surrounding the resignation and consider whether any action is required;
- 9.5.25 To explain to shareholders in the Audit Committee section of the annual report how the Audit Committee assessed the effectiveness of the external auditor process and how it reached its recommendation to the Board on the appointment, reappointment or removal of the external auditors and include in the explanation supporting information on tendering frequency, the tenure of the incumbent external auditor and any contractual obligations that acted to restrict the Audit Committee's choice of external auditors;
- 9.5.26 If the Board does not accept the Audit Committee's recommendation on the appointment, reappointment or removal of the external auditors, to include in the annual report, and in any papers recommending appointment or reappointment, a statement from the Audit Committee explaining its recommendation and setting out the reasons why the Board has taken a different position;

(D) **Market issues**

- 9.5.27 To evaluate the risks of the withdrawal of the Company's external auditor from the market to the quality and effectiveness of the financial reporting process and to consider the need to include the risk in the company's risk evaluation;
- 9.5.28 To consider, where appropriate, whether there might be any benefit in using firms from more than one audit firm;

9.6 **Other**

- 9.6.1 To give due consideration to any applicable laws and regulation, including the provisions of the UK Corporate Governance Code and the requirements of the UKLA's Listing, Prospectus, Disclosure and Transparency Rules and the provisions of the FRC's Guidance on Audit Committees;
  - 9.6.2 To consider other topics, as defined by the Board;
  - 9.6.3 To ensure that it is in a position to justify all of its actions and proposed courses of action;
  - 9.6.4 In exercising its powers, to take into account the duties of directors under Chapter 2 of Part 10 of the Companies Act 2006 including, in particular, section 172 of the 2006 Act, which requires a director to act in a way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:
    - (A) the likely consequences of any decision in the long term;
    - (B) the interests of the company's employees;
    - (C) the need to foster the company's business relationships with suppliers, customers and others;
    - (D) the impact of the company's operations on the community and the environment;
    - (E) the desirability of the company maintaining a reputation for high standards of business conduct, and;
    - (F) the need to act fairly as between members of the company; and
  - 9.6.5 To promptly provide the Board with such information as may be necessary or desirable in the opinion of the Board to enable the Board to monitor its conduct in order that each member of the Board may fulfil his duties and responsibilities as a director.
- 9.7 At least once a year, to review its own performance, constitution and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board for approval ; and
- 9.8 To report to the Board on how it has discharged its responsibilities.
10. **REPORTING TO SHAREHOLDERS**
- 10.1 The Chairman or, as a minimum, another member of the Audit Committee, shall attend the Board meeting at which the accounts are approved.



- 10.2 The Audit Committee terms of reference shall be made available on the Company's website in accordance with the Governance Code.
- 10.3 The Company shall maintain a dialogue with shareholders about the work of the Audit Committee.
- 10.4 A section of the annual report shall describe the work of the Audit Committee, which shall include:
  - 10.4.1 a summary of the role of the Audit Committee
  - 10.4.2 the names and qualifications of all members of the Audit Committee during the period;
  - 10.4.3 the number of Audit Committee meetings;
  - 10.4.4 the significant issues that the Audit Committee considered in relation to the financial statements and how these issues were resolved;
  - 10.4.5 an explanation of how the Audit Committee has assessed the effectiveness of the external audit process and the approach taken to the appointment or re-appointment of the external auditor, information on the length of the current firm tenure, when a tender was last conducted, and any contractual obligations that restrict the Audit Committee's choice of external auditor;
  - 10.4.6 if the external auditor provides non-audit services, how auditor objectivity and independence is safeguarded; and
  - 10.4.7 any issues which are the subject of an unresolved dispute between the Audit Committee and the Board.

## 11. **ANNUAL GENERAL MEETING**

- 11.1 The Chairman shall be available at the Annual General Meeting to answer questions on the Audit Committee's activities and its responsibilities.