

HomeServe plc

Terms of Reference - Audit and Risk Committee

1. Purpose

The UK Corporate Governance Code (the “Code”) states that:

The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

The board should establish procedures to manage risk, oversee the internal control framework and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

The purpose of these terms is to ensure compliance with these and other principles of the Code based on guidance produced by The Chartered Governance Institute.

Reference to “the Committee” shall mean the Audit and Risk Committee. Reference to “the Board” shall mean the Board of Directors.

2. Membership

- 2.1. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Audit & Risk Committee. The Committee shall comprise at least three members.
- 2.2. All members of the Committee shall be 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 Chairman of the Board must not be a member. The Committee as a whole shall have competence relevant to the sector in which the Company operates.
- 2.3. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman of the Board, Chief Executive, Chief Financial Officer, other directors, the heads of risk, compliance and internal audit and representatives from the finance function may be invited to attend all or part of any meeting or for a particular agenda item as and when appropriate.
- 2.4. The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 2.5. The Board shall appoint the Committee Chairman who shall be an independent non-executive director. 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.

3. Secretary

- 3.1. The Company Secretary or their nominee shall act as the Secretary of the Committee.

4. Quorum

- 4.1. The quorum necessary for the transaction of business shall be two members. 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.

5. Frequency of Meetings

- 5.1. The Committee shall meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required.
- 5.2. Outside of the formal meeting programme, the Committee Chairman and to a lesser extent the other committee members, will maintain a dialogue with key individuals involved in the Company's governance including the Board Chairman, the Chief Executive, the CFO, the external audit lead partner and the head of internal audit.

6. Notice and Agenda 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. The agenda of the meetings shall be divided into two clearly separated sections: audit matters and risk matters. The time allocated to each shall be dictated by the immediacy and importance of the issues at hand and the Company's financial calendar.
- 6.3. 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 person required to attend and all other non-executive directors, no later than 4 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 members of the Board unless it would be inappropriate to do so.

8. Engagement with Shareholders

- 8.1. The Chairman of the Committee shall attend the Annual General Meeting to respond to any shareholder questions on the Committee's activities. In addition, the Chairman of the Committee may seek engagement with shareholders on significant matters related to the Committee's areas of responsibilities where appropriate.

9. Duties

Whilst recognising that ultimate responsibility for risk management, internal control and compliance rests with management and the Board, the Committee will carry out the duties below. The Committee should have oversight of the group as a whole and unless required otherwise by regulation, carry out these duties for the parent company, major subsidiary undertakings and the group as a whole.

9.1. Financial & Narrative Reporting

- 9.1.1. The Committee shall monitor the integrity of the financial statements of the Group, including its annual report, interim and preliminary results announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor.
- 9.1.2. The Committee shall review and challenge where necessary:
 - 9.1.2.1 the application of significant accounting policies and any changes to them;
 - 9.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
 - 9.1.2.3 whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - 9.1.2.4 the appropriateness of the going concern basis of preparation;
 - 9.1.2.5 the clarity of disclosure in the company's financial reports and the context in which statements are made; and
 - 9.1.2.6 all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).
- 9.1.3. The Committee may review any other external statements which contain financial information where 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, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook.
- 9.1.4. Where requested by the Board, the Committee shall 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.
- 9.1.5. 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.

9.2. Risk Management, Internal Controls and Compliance

The Committee shall:

- 9.2.1. advise the Board on the Group's overall risk appetite, tolerance and strategy, and the principal and emerging risks the Company is willing to take in order to achieve its long-term strategic objectives;
- 9.2.2. advise the Board on the likelihood and impact of principal risks materialising, and the anagement and mitigation of principal risks to reduce the likelihood of their incidence or their impact;
- 9.2.3. advise the Board on the risk aspects of proposed changes to strategy;
- 9.2.4. advise the Board on the current risk exposures and future risk strategy of the Group and its material subsidiary undertakings;
- 9.2.5. review and assess the Company's risk appetite and associated stress testing;
- 9.2.6. review and approve the means by which the Group and its regulated subsidiary undertakings seek to comply with their respective regulatory obligations, and periodically review the effectiveness of the regulatory compliance policies of the Company;
- 9.2.7. keep under review the quality and effectiveness of internal financial controls systems that identify, assess, manage and monitor financial risks and other internal control and risk and compliance management systems to ensure, in particular that key risks are properly identified, assessed and mitigated;
- 9.2.8. receive regular reports on compliance (in particular with respect to the relationship of the Group with the FCA and any material risk or compliance issues); and
- 9.2.9. review and approve the statements to be included in the Annual Report concerning internal controls, compliance, risk management, including the assessment of principal risks and emerging risks, and the viability statement.

9.3. Speaking Up and Fraud

The Committee shall:

- 9.3.1. review the adequacy of the Company's arrangements for employees, contractors and other parties 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.
- 9.3.2. review the Company's procedures for detecting fraud; and
- 9.3.3. review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

9.4. Internal Audit

The Committee shall:

- 9.4.1. monitor and review the effectiveness of the company's internal audit function in the context of the company's overall risk management system and approve the internal audit charter, ensuring it is appropriate for the current needs of the organisation;
- 9.4.2. approve the appointment and removal of the head of the internal audit function;
- 9.4.3. consider and approve the remit of the internal audit function and ensure it has unrestricted scope, adequate resources and appropriate access to information to enable it to perform its function effectively, ensure there is open communication between different functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan and ensure that the internal audit function is equipped to perform in accordance with the relevant professional standards for internal auditors. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- 9.4.4. ensure the internal auditor has direct access to the Board Chairman and the Committee Chairman, providing independence from the Executives and accountability to the Committee;
- 9.4.5. meet the head of internal audit at least twice a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out;
- 9.4.6. review and assess the annual internal audit plan to ensure it is aligned to the key risks of the business;
- 9.4.7. review promptly all reports from the internal auditors;
- 9.4.8. review and monitor management's responsiveness to the findings and recommendations of the internal auditor;
- 9.4.9. carry out an annual assessment of the effectiveness of the internal audit function including assessing whether it is satisfied that the quality and experience of internal audit is appropriate for the business;
- 9.4.10. 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; and
- 9.4.11. consider whether an independent, third party review of processes is appropriate.

9.5. External Audit

The Committee shall:

- 9.5.1. 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.
- 9.5.2. develop and oversee the selection procedure for the appointment of the audit firm in accordance with applicable Code and regulatory requirements and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;
- 9.5.3. if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- 9.5.4. oversee the relationship with the external auditor including (but not limited to):
 - 9.5.4.1. approval of 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;
 - 9.5.4.2. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - 9.5.4.3. assessing annually their independence and objectivity taking into account relevant UK law, regulation, 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;
 - 9.5.4.4. 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;
 - 9.5.4.5. agreeing with the Board a policy on the employment of former employees of the Group's auditor, taking into account the Ethical Standard and legal requirements, then monitoring the implementation of this policy;
 - 9.5.4.6. monitoring the auditor's processes for maintaining independence, its compliance with relevant law, regulation, other professional guidance and the Ethical Standard, including the guidance on the rotation of audit partners and staff;
 - 9.5.4.7. monitoring 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 ;
 - 9.5.4.8. assessing annually their qualifications, expertise and resources, and independence and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures; and

- 9.5.4.9. seeking to ensure co-ordination with the activities of the internal audit function;
- 9.5.5. evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee
- 9.5.6. 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 services to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statement. The policy should include consideration of the following matters:
 - 9.5.6.1. threats to the independence and objectivity of the external auditor and any safeguards in place;
 - 9.5.6.2. the nature of the non-audit services;
 - 9.5.6.3. whether the external audit firm is the most suitable supplier of the non-audit service;
 - 9.5.6.4. the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
 - 9.5.6.5. the criteria governing compensation;
- 9.5.7. 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 twice a year, without management being present, to discuss their remit and any issues arising from the audit;
- 9.5.8. discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan ensuring that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- 9.5.9. review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
 - 9.5.9.1. a discussion of any major issues which arose during the audit;
 - 9.5.9.2. the auditor's explanation of how the risks to audit quality were addressed;
 - 9.5.9.3. any accounting and audit judgements;
 - 9.5.9.4. the auditor's view of their interactions with senior management; and
 - 9.5.9.5. levels of errors identified during the audit.
- 9.5.10. review any representation letter(s) requested by the external auditor before they are signed by management;
- 9.5.11. review the management letter and management's response to the auditor's findings and recommendations; and

- 9.5.12. 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.

10. Reporting Responsibilities

- 10.1. The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also report to the Board on how it has discharged its responsibilities. This report shall include:
 - 10.1.1. the significant issues that it considered in relation to the financial statements and how these were addressed;
 - 10.1.2. its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor including 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
 - 10.1.3. any other issues on which the Board has requested the Committee's opinion.
- 10.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.3. The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report and accounts. The report should describe the work of the Committee, including:
 - 10.3.1. the significant issues considered in respect of the financial statements and how these issues were addressed;
 - 10.3.2. an explanation of how the Committee has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans;
 - 10.3.3. an explanation of how auditor independence and objectivity are safeguarded if the external auditor provides non-audit services, having regard to matters communicated to it by the auditor and all other information requirements set out in the Code.
- 10.4. The Committee should exercise judgement in deciding which of the issues it considers in relation to 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 and the inputs to the 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.

11. Other Matters

The Committee shall:

- 11.1. have access to sufficient resources in order to carry out its duties;
- 11.2. 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;
- 11.3. give due consideration to laws and regulations, the provisions of the Code and the requirements of the Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules, as appropriate;
- 11.4. be responsible for co-ordination of the internal and external auditors;
- 11.5. oversee any investigation of activities which are within its terms of reference;
- 11.6. 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
- 11.7. arrange for periodic review 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.

12. Authority

The Committee is authorised:

- 12.1. to seek any information it requires from any employee of the company in order to perform its duties;
- 12.2. to obtain, at the company's expense, independent legal, accounting or other professional advice on any matter it believes it is necessary to do so;
- 12.3. to call any employee to be questioned at a meeting of the Committee as and when required; and
- 12.4. 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. If the Board has not accepted the Committee's recommendation on the external auditor appointment, reappointment or removal, the annual report should include a statement explaining the Committee's recommendation and the reasons why the Board has taken a different position.