



WATCHES OF SWITZERLAND GROUP PLC

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# TERMS OF REFERENCE FOR THE AUDIT & RISK COMMITTEE

MAY 2023

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### AUDIT & RISK COMMITTEE

The Board of the Company (the 'Board') had previously established a committee of the Board known as the Audit Committee at a meeting held on 7 May 2019, when terms of reference were formally approved. The Terms of Reference for the Audit and Risk Committee (the 'Committee') were revised and first approved by the Board on 1 September 2022.

The Committee is a committee of the Board from which it derives its authority and to which it regularly reports.

#### **1. MEMBERSHIP**

- I.1 The Committee shall comprise a chair and a minimum of two members. The Committee shall include at least one member of the remuneration committee. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chair of the Committee.
- I.2 All members of the Committee shall:
  - I.2.1 be independent non-executive directors as determined by the Board (in accordance with the principles of the UK Corporate Governance Code 2018 (the "Code");
  - I.2.2 at least one of whom shall have recent and relevant financial experience and with competence in accounting and/or auditing; or both; and
  - I.2.3 have competence relevant to the sector in which the Company operates, except for a temporary period owing to changes in membership of the Committee.
- I.3 The Chair of the Board shall not be a member of the Committee.
- I.4 Only members of the Committee have the right to attend committee meetings. However, other individuals such as the Chair of the Board, the Chief Executive Officer, the Chief Financial

Officer, the Group Finance Director, the Head of Internal Audit & Risk and external audit lead partner and audit manager will be invited to attend meetings of the Committee on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.

- I.5 Subject to the provisions of the Company's articles of association and to the provisions of the letter of appointment of each director of the Company, appointments to the Committee shall be for a period of up to three years, which normally may be extended for two further three-year periods, provided the director still meets the criteria for membership of the Committee.
- I.6 The Board shall appoint the Chair of the Committee. In the absence of the Chair of the Committee and/or an appointed deputy at a Committee meeting, the remaining members present shall elect one of themselves to chair the meeting.

#### **2. SECRETARY**

The Company Secretary, or their nominee, shall act as the Secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

#### **3. QUORUM**

The quorum necessary for the transaction of business shall be two members (notwithstanding paragraph I.1)

#### **4. FREQUENCY OF MEETINGS**

- 4.1 The Committee shall normally meet at least four times a year at appropriate intervals in the reporting and audit cycle and otherwise as required, and in any event so that attendance is maximised.
- 4.2 The Chair of the Committee may convene meetings at their discretion.

- 4.3 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 Officer, the Chief Financial Officer, the Company Secretary & General Counsel, the Group Finance Director, the Head of Internal Audit and the external audit lead partner.

## 5. NOTICE OF MEETINGS

- 5.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or at the request of the External Audit lead partner or Head of Internal Audit & Risk if they consider it necessary.
- 5.2 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 person required to attend and all other non-executive Directors, no later than five 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.
- 5.3 Notices, agendas and supporting papers can be sent in electronic format.

## 6. MINUTES OF MEETINGS

- 6.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.3 Minutes of Committee meetings shall be agreed with the Chair of the Committee and then circulated to all members of the Committee unless it would be inappropriate to do so in the opinion of the Committee Chair.

## 7. ANNUAL GENERAL MEETING

The Chair of the Committee shall attend the Annual General Meeting of the Company (the "AGM") prepared to respond to any shareholder questions on the Committee's activities.

## 8. DUTIES

- 8.1 The Committee should carry out the duties below for the Company and its subsidiary undertakings (the "Group") as a whole, as appropriate.

### 8.2 Financial Reporting

- 8.2.1 The Committee shall:
- 8.2.1.1 monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, preliminary results' announcements; and any other formal announcement relating to its financial position or performance and review and report to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the external auditors. It is the responsibility of management, not the Committee, to prepare complete and accurate financial statement and disclosure in accordance with accounting standards and other regulations. The Committee shall review and challenge where necessary; the application of significant accounting policies and any changes to them; the methods used to account for significant or unusual transactions where different approaches are possible; whether the Group has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the views of the external auditor on the financial statements; completeness and clarity of disclosures; and all material information presented with the financial statements, such as the strategic report and the corporate governance statement (insofar as it relates to the audit and to risk management); and
- 8.2.1.2 review any other statements, if requested to do so by the Board, which contain any financial information requiring Board approval, 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.
- 8.2.2 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.

- 8.2.3 The Committee shall receive an annual report in the Company's tax affairs, with any major issues in the intervening period brought to their attention separately. The Committee will approve the Company's tax strategy prior to it being published.
- 8.3 Narrative Reporting**
- 8.3.1 It is the responsibility of management, not the Committee, to prepare complete and accurate financial statements and disclosures in accordance with accounting standards and other regulations. Where requested by the Board, the Committee should review the content of the annual report and financial statements 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 position, 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.
- 8.4 Internal controls and risk management systems**
- 8.4.1 The Board has ultimate responsibility for the Group's risk management and internal control systems. Where requested by the Board or required by relevant rules, codes or guidance, the Committee shall:
- 8.4.1.1 keep under review the Group's internal financial controls, that identify, assess, manage and monitor financial risks; consider and review internal control and risk management systems, including operational and compliance controls and receive reports from management on the effectiveness of the systems and from internal or external auditors on any testing;
- 8.4.1.2 ensure that a robust assessment of emerging risks and principal risks is undertaken at least annually, that procedures are in place to identify emerging risks and provide advice on the management and mitigation of those risks and consideration of the acceptable risk tolerance level for the Group;
- 8.4.1.3 consider the major findings of any relevant internal investigations into control weaknesses, fraud or misconduct and the relevant management response to this;
- 8.4.1.4 review and recommend to the Board the statements to be included in the annual report concerning internal control, risk management including the assessment of the principal and emerging risks and disclosures associated with the recommendations of the Task Force on Climate Related Financial Disclosures, going concern and the viability statement;
- 8.4.1.5 review the Company's processes and framework in relation to IT and cyber security; and
- 8.4.1.6 in conjunction with the ESG Committee, review the environmental, social and governance risks and opportunities, including those relating to material climate-related matters.
- 8.5 Compliance, whistleblowing, Fraud and Bribery**
- 8.5.1 The Board has ultimate responsibility for the Group's processes relating to compliance, whistleblowing, fraud and bribery. Where requested by the Board or required by relevant rules, codes or guidance, the Committee shall:
- 8.5.1.1 review the adequacy and security of the arrangements by which the Group's colleagues and third parties may, in confidence, raise concerns about possible wrongdoing in matters of financial reporting or other matters of wrongdoing. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- 8.5.1.2 review the Company's procedures for detecting fraud; and
- 8.5.1.3 review regular reports from the Head of Internal Audit & Risk and keep under review the adequacy and effectiveness of the Company's compliance activities
- 8.6 Internal Audit**
- 8.6.1 The Committee shall:
- 8.6.1.1 approve the appointment or termination of appointment of the Head of Internal Audit & Risk;
- 8.6.1.2 review and approve the responsibilities of the internal audit function and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors;

- 8.6.1.3 ensure the Head of Internal Audit & Risk has direct access to the Chair of the Board and to the Chair of the Committee, and is accountable to the Committee;
  - 8.6.1.4 review and assess the annual internal audit work plan to ensure it is aligned to the key risks of the business and to ensure that the scope of the plan or Internal Audit's work is not restricted in any way by management;
  - 8.6.1.5 receive a report on the results of the internal audit function's work on a periodic basis;
  - 8.6.1.6 review and monitor management's responsiveness to internal audit's findings and recommendations;
  - 8.6.1.7 meet with the Head of Internal Audit & Risk at least once a year without the presence of management;
  - 8.6.1.8 annually monitor and review the effectiveness of the Company's internal audit function;
  - 8.6.1.9 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
  - 8.6.1.10 consider whether an independent, third party review of processes and controls is appropriate.
- 8.7 External Audit**
- 8.7.1 The Committee shall (acting collectively or through its Chair), taking into account any applicable legislation and law:
    - 8.7.1.1 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;
    - 8.7.1.2 ensure that at least once every ten years the audit services contract is put out to tender, develop and oversee the selection procedure for the appointment of the audit firm, ensuring that all tendering firms have access to all necessary information and individuals during the tender process;
    - 8.7.1.3 if the External Auditor resigns, investigate the issues leading to this and decide whether any action is required;
  - 8.7.1.4 oversee the relationship with the External Auditor including:
    - (A) agree their remuneration, and satisfy itself that the level of fees is appropriate to enable an effective and high-quality audit to be conducted;
    - (B) review and agree their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 8.7.1.5 assess annually the External Auditor's independence and objectivity taking into consideration relevant UK professional and regulatory requirements (including the FRC Ethical Standard) and the Group's relationship with the External Auditor as a whole, including any threats to the External Auditor's independence and the safeguards applied to mitigate those threats such as the provision of any non-audit services;
  - 8.7.1.6 consider whether taken as a whole, there are any relationships between the External Auditor and the Company which could adversely affect the External Auditor's independence and objectivity;
  - 8.7.1.7 agree with the Board a policy on the employment of former employees of the Company's External Auditor; taking into account the FRC Ethical Standard and legal requirements, and monitor the application of this policy;
  - 8.7.1.8 monitor the External Auditor's processes for maintaining independence, its compliance with relevant UK law, regulation, other professional requirements and the FRC Ethical Standard, including the guidance on the rotation of the audit partner and staff;
  - 8.7.1.9 8.7.1.9 monitor the level of fees paid by the Company 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 FRC Ethical Standard;
  - 8.7.1.10 assess annually the qualifications, expertise and resources of the external auditor and the effectiveness of the audit process, which shall include an assessment of the quality of the audit, the handling of key judgements by the external auditor, and the external auditor's response to questions from the Committee and a report from the external auditor on their own internal quality procedures;

- 8.7.1.11 seek to ensure co-ordination with the activities of the External Auditors and the internal audit function; and
- 8.7.1.12 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;
- 8.7.1.13 develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the External 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 be kept under review and include consideration of the following matters:
- (A) threats to the independence and objectivity of the External Auditor and any safeguards in place;
  - (B) the nature of the non-audit services;
  - (C) whether the skills and experience of the External Auditor is the most suitable supplier of the non-audit service;
  - (D) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
  - (E) the criteria governing compensation of the individuals performing the audit;
- 8.7.1.14 meet regularly with the External Auditor, including once at the planning stage before the audit and once after the audit at the reporting stage, and at least once a year, meet without management being present, to discuss the audit findings and the External Auditor's remit and any issues arising from the audit;
- 8.7.1.15 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 external audit team;
- 8.7.1.16 review the findings of the external audit with the External Auditor. This shall include, but not be limited to, the following:
- (A) a discussion of any major issues which arose during the audit;
  - (B) the External Auditor's explanation of how the risks to audit quality were addressed;
  - (C) the evidence received in relation to each area of significant judgement and review key accounting and audit judgements;
  - (D) the External Auditor's view of their interactions with senior management and members of the finance team; and
  - (E) levels of errors identified during the external audit and explanations for unadjusted errors..
- 8.7.1.17 review any representation letter(s) requested by the External Auditor before they are signed by management; and
- 8.7.1.18 review management's responsiveness to the External Auditor's findings and recommendations.

## 9. REPORTING RESPONSIBILITIES

- 9.1 The Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and on how it has discharged its responsibilities. This report shall include at the relevant time:
- 9.1.1 the significant issues that it considered in relation to the financial statements and how these were addressed;
  - 9.1.2 its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the External Auditor; and
  - 9.1.3 any other issues on which the Board has requested the Committee's opinion.
- 9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3 The Committee shall compile a report to shareholders describing the work of the Committee, which shall be included in the Company's annual report. The report should include:

- 9.3.1 the significant issues that the Committee considered relating to the financial statements, and how these issues were addressed;
- 9.3.2 an explanation of how it 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;
- 9.3.3 in the case of the Board not accepting the Committee's recommendation on the External Auditor appointment, reappointment or removal, a statement from the Committee explaining its recommendation and the reasons why the Board has taken a different position (this should also be supplied in any papers recommending appointment or reappointment); and
- 9.3.4 an explanation of how auditor independence and objectivity are safeguarded, if the External Auditor provides non-audit services.
- 9.4 In compiling the reports referred to in 9.1 and 9.3, 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.
- 10.1.5 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
- 10.1.6 arrange for periodic reviews of its own performance and at least annually, review its terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board.

## II. AUTHORITY

- 11.1 The Committee is authorised:
- 11.1.1 to seek any information or document it requires from any employee of the Group in order to perform its duties;
- 11.1.2 to obtain, at the Company's expense, outside legal or other professional advice on any matter it believes it necessary to do so;
- 11.1.3 to call any employee of the Group to be questioned at a meeting of the Committee as and when required;
- 11.1.4 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; and
- 11.1.5 delegate any of its powers to one or more of its members or the Secretary.

These terms of reference shall be made available on the Group's website [www.thewosgroupplc.com](http://www.thewosgroupplc.com)

Approved by the Watches of Switzerland Group PLC Board 4 May 2023.

## 10. OTHER MATTERS

- 10.1 The Committee shall:
- 10.1.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 10.1.2 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;
- 10.1.3 give due consideration to any applicable laws, regulations, guidance and rules as appropriate;
- 10.1.4 oversee any investigation of activities which are within its terms of reference;