

LOOKERS PLC (PLC)

THE AUDIT & RISK COMMITTEE

TERMS OF REFERENCE

(as adopted by the Board of Directors of Lookers plc on 17 December 2020)

1 Membership

- 1.1 Membership of the Audit & Risk Committee (**Committee**) shall be appointed by the Board of Directors of PLC (**PLC Board**) on the recommendation of the Nomination Committee in consultation with the Committee Chairman. The Committee shall be made up of at least three members. All members of the Committee shall be independent non-executive Directors of PLC and, where possible, one should also be a member of the Remuneration Committee.
- 1.2 At least one of the members of the Committee shall have recent and relevant financial experience and shall, preferably, hold a professional qualification from one of the professional accountancy bodies. The Chairman of the Board shall not be a member of the Committee.
- 1.3 Only members of the Committee have the right to attend Committee meetings. However, other Directors and other individuals (including representatives of external advisers) may be invited to attend all or part of any meeting as and when appropriate in the opinion of the Committee's Chairman or the majority of its members.
- 1.4 The external auditor will be invited to attend meetings of the Committee on a regular basis.
- 1.5 Membership of the Committee shall be periodically refreshed. Appointments shall be for a period of up to three years (subject to the election and re-election provisions in PLC's constitution and in the UK Corporate Governance Code), which may be extended by no more than two further periods of up to three years each (subject to the other terms in this document).
- 1.6 The PLC Board shall appoint the Committee Chairman. In the absence of the Committee Chairman, the remaining members present shall elect one of themselves to chair a meeting of the Committee.

2 Secretary

The Company Secretary, or any other person selected for the task by the Committee, shall act as the Secretary of the Committee.

3 Quorum

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.

4 Frequency of meetings

- 4.1 The Committee shall meet at least three times a year [at appropriate intervals in the financial reporting and audit cycle] and otherwise as required.
- 4.2 Outside of the formal meeting programme, the Committee Chairman, and, to a lesser extent, the other Committee members, shall maintain a dialogue with key individuals involved in PLC's governance, including the Chairman of the Board, Chief Executive Officer, Chief Financial Officer, external audit lead partner and the head of internal audit.

5 Notice of meetings

- 5.1 Meetings of the Committee shall be convened 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 the head of the internal audit if such person considers it necessary.
- 5.2 Unless otherwise agreed by the Committee, 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 business days before the date of the meeting.
- 5.3 The Secretary shall ensure that each member of the Committee (and any other attendee as appropriate) receives information and papers in a timely manner to enable proper consideration to be given to issues. Such information and papers can be sent in electronic form and shall be sent no later than five business days before the date of the meeting.

6 Minutes of meetings

- 6.1 The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2 Draft minutes of Committee meetings shall be agreed with the Committee Chairman within five business days of the meeting and then circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board, other than where, in the opinion of the Committee Chairman, it would be inappropriate to do so.

7 Annual General Meeting

The Committee Chairman should attend the annual general meeting to answer shareholder questions on the Committee's activities. The Committee Chairman may make a statement at the annual general meeting on the activities and achievements of the Committee during the year.

8 Duties

The Committee should carry out the duties detailed below for PLC, major subsidiary undertakings and the group as a whole, as appropriate. In carrying out these duties, the

members of the Committee must comply with their duty under section 172 of the Companies Act 2006 to act in the way they consider, in good faith, would be most likely to promote the success of the relevant company for the benefit of its members as a whole, whilst having regard to the interests of employees, stakeholders and other matters as required by section 172.

8.1 Financial reporting

- (a) The Committee shall monitor the integrity of the financial statements of PLC, including its annual and half-yearly reports and any other formal announcement or statement relating to its financial performance, reviewing and reporting to the PLC Board on significant financial reporting issues and judgments which they contain, having regard to matters communicated to it by the external auditor.
- (b) The Committee shall review and challenge where necessary:
 - (i) the application of, and any changes to, significant accounting policies;
 - (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
 - (iii) whether PLC has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the views of the external auditor on the financial statements;
 - (iv) the Directors' assessment and statement as to whether, taking account of PLC's position and principal risks, they have a reasonable expectation that PLC will be able to continue in operation and meet its liabilities as they fall due over the period covered by that statement;
 - (v) the Directors' assessment and statement as to whether they consider it appropriate to adopt the going concern basis of accounting in preparing financial statements and the identification of material uncertainties to PLC's ability to continue to do so;
 - (vi) the clarity and completeness of disclosure in PLC's financial reports and the context in which statements are made; and
 - (vii) 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 risk management).
- (c) The Committee shall also review any other statements requiring PLC Board approval which contain financial information first, where to carry out a review prior to PLC Board approval would be practical and consistent with any prompt reporting requirements under any law or regulation including (without limitation) the UK Listing Authority's Listing Rules and the Disclosure Guidance and Transparency Rules sourcebook.
- (d) The Committee shall report its views to the PLC Board if it is not satisfied with any

aspect of the proposed financial reporting by PLC.

- (e) The Committee shall, if requested by the PLC Board, also review the content of the annual report and accounts and advise the PLC Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess PLC's position, performance, business model and strategy so as to inform the PLC Board's statement in the annual report and accounts on these matters as recommended by the UK Corporate Governance Code.

8.2 Internal controls and risk management systems

The Committee reviews PLC's overall risk profile, tolerance and strategy, including the implementation of the Risk Management Framework and Risk Strategy, the nature and extent of significant risks that PLC is willing to take in achieving its strategic objectives. Specifically, the committee shall carry out the following duties:

- (a) Review appropriate internal financial controls, internal quality controls and risk management systems that can identify the risks facing PLC and carry out, as required by the PLC Board, a robust assessment of principal risks, including those that might impact on the business model, performance, liquidity and solvency;
- (b) review the development, implementation and maintenance of Lookers risk management framework, including its risk appetite statements and metrics to ensure that they are appropriate and align with business strategy, current and emerging corporate governance, recommending them to Board for approval;
- (c) review the development and implementation of the Principal Risk Policies and perform detailed review of these policies at least annually, recommending them to Board for approval;
- (d) review the process and procedures for ensuring that all material risks are properly identified, and appropriate systems of assessment, monitoring and controls are in place;
- (e) oversee and advise the PLC Board on the current risk exposures of PLC and future risk strategy;
- (f) review PLC's capacity and procedures to identify, assess and manage new and emerging risk types;
- (g) monitor and encourage the embedding and maintenance throughout PLC's group of a supportive culture and reward system in relation to the management of risk;
- (h) consider and approve the remit of PLC's risk management 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;
- (i) ensure that PLC's risk management function has adequate independence and is free from management and other restrictions;

- (j) Recommend to the Lookers PLC Board the appointment and/ or removal of the Chief Risk Officer;
- (k) advise on the extent to which risk is being properly considered by the Remuneration Committee and the PLC Board in setting the overall remuneration policy for PLC's group and the remuneration of the Executive Directors and other senior executives and provide input on risk considerations when the Remuneration Committee is considering targets and performance objectives incorporated into executive remuneration;
- (l) monitor on an ongoing basis all internal financial controls and internal quality control and risk management systems and, at least annually, carry out a review of the scope, adequacy and effectiveness of those systems;
- (m) receive reports from PLC's management and the external and internal auditor on the effectiveness and integrity of those systems;
- (n) review and monitor the nature and implementation of the internal control and internal financial control and risk management mitigation activities, including reviewing management's approach to assessing Strategic Risks to ensure the business is resilient and sustainable;
- (o) review whether the principles of any guidance published by the Financial Reporting Council (or any successor body) for Directors on internal control and related financial and business reporting are being embedded within PLC's group;
- (p) receive and review management reports which assess the nature and extent of the current and emerging risks facing Lookers;
- (q) receive and review reports of any material breaches and the adequacy of proposed remedial action;
- (r) review the timeliness of, and reports on, the effectiveness of corrective action taken by PLC's management;
- (s) review and approve the statements to be included in the annual report concerning internal controls and risk management, prior to consideration by the PLC Board; and
- (t) work and liaise with all other committees of the PLC Board as necessary, including monitoring their performance and actions to ensure full coverage of risk issues is achieved.

8.3 **Compliance, whistleblowing and fraud**

The Committee shall:

- (a) [review routinely the adequacy and security of PLC's arrangements for its workforce to raise concerns, in confidence, about any matter and review reports arising from the operation of such arrangements];

- (b) ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- (c) review PLC's procedures for detecting fraud;
- (d) review PLC's systems and controls for the prevention of bribery and receive reports on any alleged or suspected non-compliance; and
- (e) review regular reports on, and keep under review the adequacy and effectiveness of, the compliance function.

8.4 **Internal audit**

Internal Audit is independent of management and provides objective assurance and consulting activity designed to add value to and improve Lookers operations and protect its assets, reputation and sustainability. To achieve this, the scope of the Internal Audit encompasses, but is not limited to, the examination and evaluation of Lookers governance, risk management and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve Lookers stated goals and objectives.

The Committee shall:

- (a) approve the appointment or termination of appointment of the head of internal audit;
- (b) ensure that the Head of Internal Audit has a direct reporting line to CEO and an administrative reporting line to the Chair of Audit Committee. This help to ensure Internal Audit Activity is free from interference in determining the scope of internal auditing, performing work and communicating results.
- (c) review, and approve, the remit of the internal audit function and ensure it has adequate standing, unrestricted scope, 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;
- (d) ensure the internal auditor has direct access to the Chairman of the PLC Board, where necessary, and to the Chairman of the Committee, providing independence from the executive and accountability to the Committee;
- (e) ensure that there is open communication between the different functions and that internal audit evaluates the effectiveness of these functions as part of its internal audit plan;
- (f) review and assess the annual internal audit work plan, ensuring that it is aligned to the key risks in the business;
- (g) receive a report on the results of the internal auditor's work on a periodic basis;
- (h) review and monitor management's responsiveness to the findings and recommendations of the internal auditor;

- (i) meet with the head of internal audit at least once a year, without management being present; and
- (j) monitor, and review, the effectiveness of PLC's internal audit function in the context of PLC's overall risk management system and the work of compliance, finance and the external auditor and, as part of that assessment:
 - (i) determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and
 - (ii) consider whether an independent, third party review of the internal audit effectiveness and processes is appropriate.

8.5 External Audit

External Audit is independent of the organisation and it's role is to evaluate whether the financial statements are free from material misstatement, and to issue an audit report that includes the auditors opinion.

The Committee shall:

- (a) consider and make recommendations (which shall include any information required by law) to the PLC Board, to be put to shareholders for approval at the annual general meeting, in relation to the appointment, re-appointment and removal of PLC's external auditor. The Committee shall initiate and supervise any competitive external audit tender process and oversee the selection process for a new auditor and, if an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required;
- (b) ensure that the external audit services contract is put out to tender in accordance with applicable regulatory and legislative requirements, to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms, and in respect of such tender oversee the selection process and ensure that all tendering firms have the necessary access to information and individuals throughout the tendering process;
- (c) oversee the relationship with the external auditor including (but not limited to):
 - (i) negotiating and agreeing the external auditor's remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high-quality audit to be conducted;
 - (ii) negotiating and agreeing the external auditor's terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (iii) assessing annually the external auditor's 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 the appropriateness of 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 PLC (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
 - (v) agreeing with the PLC Board a policy on the employment of former employees of PLC's auditor, taking into account the Ethical Standard and legal requirements, and monitoring the implementation of this policy;
 - (vi) monitoring the auditor's processes for maintaining its independence, its compliance with relevant law, regulation, other professional requirements and the Ethical Standard, including guidance on the rotation of the audit engagement partner and staff;
 - (vii) monitoring the level of fees paid by PLC to the external auditor 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;
 - (viii) assessing annually the external auditor's qualifications, expertise and resources and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
 - (ix) seeking to ensure co-ordination of the external audit with the activities of the internal audit function; and
 - (x) evaluating the risks to the quality and effectiveness of the financial reporting process in light of the external auditor's communications with the Committee;
- (d) 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, without management being present, to discuss the external auditor's remit and any issues arising from the audit;
- (e) discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- (f) review the findings of the audit with the external auditor. This shall include but not be limited to:
- (i) a discussion of any major issues which arose during the audit;
 - (ii) the external auditor's explanation of how the risks to audit quality were addressed;

- (iii) key accounting and audit judgements;
 - (iv) the external auditor's view of their interactions with senior management;
 - (v) levels of errors identified during the audit; and
 - (vi) any findings and conclusions by the Financial Reporting Council (or any successor body) where PLC's audit has been the subject of a review;
- (g) review any representation letter(s) requested by the external auditor before they are signed by management;
 - (h) review the management letter and management's response to the auditor's findings and recommendations;
 - (i) review the effectiveness of the external audit process, including an assessment of the quality of the audit, the handling of key judgments by the external auditor, and the auditor's response to questions from the Committee; and
 - (j) develop and implement policy on the supply of non-audit services by the external auditor, including the approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved and an assessment of whether non-audit services have a direct or material effect on the audited financial statements. This policy should include consideration of:
 - (i) any threats to the independence and objectivity of the external auditor, taking into account the Ethical Standard, legal and regulatory requirements and any safeguards in place;
 - (ii) the nature of any non-audit services;
 - (iii) whether the external audit firm is the most suitable supplier of the non-audit services;
 - (iv) the level of fees to be incurred for non-audit services, both individually and in aggregate, relative to the level of audit fee; and
 - (v) the criteria governing compensation.

8.6 Reporting responsibilities

- (a) The Committee Chairman shall report formally to the PLC Board on its proceedings after each meeting on all matters within its duties and responsibilities, including how it has discharged its responsibilities. Following the external audit, the Committee shall inform the PLC Board of the outcome of the statutory audit, explaining how the audit contributed to the integrity of financial reporting and the role the Committee played in that process.
- (b) The Committee shall make whatever recommendations or proposals to the PLC

Board it deems appropriate on any area within its remit where action or improvement is needed.

- (c) The Committee shall produce a report to be included in PLC's annual report and accounts, describing the Committee's work and how it has discharged its responsibilities. Such report shall include:
- (i) a summary of the role of the Committee;
 - (ii) the names and qualifications of all Committee members during the period, together with an explanation of how the Committee composition requirements have been addressed;
 - (iii) the number of Committee meetings;
 - (iv) the significant issues that the Committee has considered, including:
 - (A) issues in relation to the financial statements and how those issues were addressed, having regard to matters communicated to it by the external auditor. The Committee will need to exercise judgement in deciding which of the issues it considers are significant, but should include at least those matters that have informed the PLC Board's assessment of whether PLC is a going concern and the inputs to the PLC Board's viability statement;
 - (B) the nature and extent of any interaction with the Corporate Reporting Review Team of the Financial Reporting Council (or any successor body); and
 - (C) where PLC's audit has been reviewed by the Audit Quality Review Team of the Financial Reporting Council (or any successor body), any findings and actions proposed to be taken in response;
 - (v) 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, and information on the length of tenure of the current audit firm, when a tender was last conducted, and advance notice of any retendering plans (as required or appropriate) and any contractual obligations that have acted to restrict the Committee's choice of external auditor;
 - (vi) a statement from the Committee (where the PLC Board does not accept the Committee's recommendation on the external auditor appointment, re-appointment or removal) explaining its recommendation and the reasons why the PLC Board has taken a different position;
 - (vii) if the external auditor provides non-audit services, the Committee's policy for approval of non-audit services, details of how auditor objectivity and independence is safeguarded, details of the fees paid to the external auditor for audit and non-audit services and the ratio of audit to non-audit work,

and an explanation of the non-audit services provided and why the Committee concluded that it was in the interests of PLC to purchase them from the external auditor;

- (viii) an explanation (where there is no internal audit function) for the absence of such function, how internal assurance is achieved and how this affects the work of the external auditor;
- (ix) any statement required by the Competition & Markets Authority's Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 where such Order applies to PLC; and
- (x) any other issues on which the PLC Board has requested the Committee's opinion.

8.7 Other

The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company Secretary 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 on-going basis for all members;
- (c) give due consideration to applicable laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus Rules and Disclosure Guidance and Transparency Rules and any other applicable rules, as appropriate;
- (d) be responsible for co-ordination of the internal and external auditor;
- (e) oversee any investigation of activities which are within its terms of reference;
- (f) work and liaise as necessary with all other PLC Board 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 PLC Board for approval.

9 Authority

The Committee is authorised to:

- (a) seek any information it requires from any employee of PLC in order to perform its duties;
- (b) obtain, at PLC's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;

- (c) call any employee to be questioned at a meeting of the Committee as and when required; and
- (d) have the right to publish as part of the report on its activities in PLC's annual report details of any issues that cannot be resolved between it and the PLC Board.

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