

**SMITH & NEPHEW PLC**  
**TERMS OF REFERENCE OF THE AUDIT COMMITTEE**

**MEMBERSHIP**

1. Members of the Audit Committee shall be appointed by the Board subject to annual re-election by shareholders at the AGM on the recommendation of the Nomination & Governance Committee and, if appropriate, in consultation with the Chair of the Audit Committee.
2. The Audit Committee shall consist of at least three members, all of whom shall be independent Non-Executive Directors (as defined by the UK Corporate Governance Code, NYSE and the SEC) and at least one of whom shall be competent in auditing or accounting. The Committee as a whole shall have competent knowledge of the healthcare sector.
3. The Board shall appoint the Chair of the Audit Committee who shall be an independent Non-Executive Director and shall not be the Chairman of the Board.
4. Only members of the Audit Committee and the External Auditor have the right to attend Audit Committee meetings. However, other individuals, including, but not limited to the Chair of the Board, Chief Executive Officer, Chief Financial Officer, SVP Internal Audit and Group Financial Control, other members of the Board and certain advisors may be invited to attend for all or part of any meeting as and when appropriate, at the Chair's consent.
5. The Company Secretary or their designate shall be the Secretary of the Audit Committee.
6. An appropriate induction programme will be provided to all new members of the Audit Committee and training provided to members on an ongoing and timely basis and include an understanding of the principal developments in corporate reporting and regulation.

**MEETINGS AND THE TRANSACTION OF BUSINESS**

7. Meetings shall usually be held not less than four times a year at appropriate times in the audit and reporting cycle. Meetings may be held physically or by telephone and additional meetings may be convened as the Chair of the Audit Committee shall determine.
8. The quorum for the transaction of business shall be two. 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.
9. The secretary of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
10. Meetings of the Audit Committee shall be summoned by the Secretary at the request of the Chair or any of its Members.

11. Unless otherwise agreed with the Chair of the Audit 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 Audit Committee no later than three working days before the date of the meeting together with supporting papers.
12. At least once a year the Audit Committee shall meet with the External Auditor without any executive board member present.
13. The Secretary shall minute the proceedings and resolutions of all Audit Committee meetings and circulate them to the members of the Audit Committee.
14. The Chair of the Audit Committee shall report regularly to the full Board on the proceedings of the Audit Committee and the minutes of all meetings shall be included in the Board papers for a subsequent Board meeting.
15. The Chair of the Audit Committee shall be required to attend the annual general meeting of shareholders to respond to any shareholder questions on the activities of the Audit Committee. The Chair of the Audit Committee shall also be required, if requested, to meet institutional shareholders to discuss any audit question they may have at other times.

## **DUTIES**

16. The duties of the Audit Committee shall be to :

### ***Finance and Accounting***

16.1 Monitor the integrity of the financial statements of the Company produced by management, including the trading report, half-year and full year announcements, Annual Accounts (including Form 20-F) and any other formal announcements relating to the Company's financial performance before submission to the Board, focusing particularly on:

- significant judgemental and financial reporting issues and any changes;
- compliance with accounting standards;
- appropriate accounting policies and practices and any changes therein taking the External Auditor's views into consideration;
- relevant communications between the External Auditor and management including that relating to audit adjustments and items not adjusted;
- the going concern assumption and viability statement;
- compliance with appropriate regulatory and legal requirements; and
- anti-fraud programmes and controls.

- 16.2 Discuss problems and reservations arising from the quarterly and interim reviews, final audit and 20-F audit and any other matters the External Auditor may wish to discuss (in the absence of management where necessary);
- 16.3 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. Where there is a disagreement between the Audit Committee and the Board adequate time will be given to resolve the matter.

## **External Audit**

- 16.4 The Audit Committee is responsible for overseeing the relationship with the Company's External Auditor.
- 16.5 Appoint, re-appoint, remove, note the resignation (and investigate any reasons why), compensate and oversee the work of the External Auditor, subject to shareholder approval at the Annual General Meeting and, when appropriate, lead the process to select the External Auditor at least every ten years, through a competitive tender process;
- 16.6 Establish and monitor an Auditor Independence Policy and setting a clear appointment policy for employees and former employees of the external auditor. This policy is provided in Appendix 1.
- 16.7 Approve the policy, processes and fees for the appointment of the External Auditor to undertake non-prohibited non-audit services taking into account the Ethical Standards for Auditors and any other relevant ethical guidance on the matter. (See Appendix 1 which details non-prohibited and prohibited non-audit services);
- 16.8 Agree with the External Auditor before the audit commences the nature and scope of the audit, and ensure co-ordination if more than one audit firm is involved;
- 16.9 Annually assess, review and monitor the External Auditor's independence, objectivity and effectiveness (including audit quality); and monitor the External Auditor's compliance with relevant ethical and professional guidance;
- 16.10 Review any representation letter(s) requested by the External Auditor before they are signed by management;
- 16.11 Review and agree any engagement letter from the External Auditor before the audit commences.
- 16.12 Review "Control Observations" made by the External Auditor and management's response;
- 16.13 Ensure that no Audit Partner of the External Auditor retains their position for more than 5 years. Only in special circumstances may that person remain in position for an additional 2 years.

## ***Internal Audit***

- 16.14 Approve the appointment and removal of the Head of Internal Audit, who shall report functionally to the Audit Committee and administratively to the Chief Financial Officer and to meet with the SVP Internal Audit at least once a year without management present;
- 16.15 Together with the Head of Internal Audit, review, assess and approve the Internal Audit Charter and the Internal Audit Annual Plan ensuring it is aligned with the key risks of the business. As part of its Audit Plan the function should evaluate the effectiveness of the risk, compliance and finance functions;
- 16.16 Review the approach adopted by internal audit on an annual basis including consideration of the tools and the methodology adopted by the function;
- 16.17 Monitor and review the effectiveness of the Internal Audit Function's activities. An independent review should be performed at least every 5 years. The Audit Committee should confirm that it is satisfied with the quality, expertise and experience of the function, which should be appropriate for the business;
- 16.18 Review with Management, the Head of Internal Audit and the Chairman of the Audit Committee whether the remit and resources of the Function is appropriate;
- 16.19 Review "Control Observations" made by the Head of Internal Audit and the adequacy of management's recommendations and the status of any unremediated actions.

## ***Internal Control***

- 16.20 On behalf of the Board (which retains overall responsibility for internal controls) review, in accordance with the requirements in S404 Sarbanes-Oxley Act in the US, management's assessment and reporting of the effectiveness of internal financial controls and systems over financial reporting and to review the External Auditor's reports on management's assessment and the effectiveness of internal control over financial reporting;
- 16.21 Review, in accordance with UK requirements, the effectiveness of the internal controls and systems and review and approve the Board's statement in the Annual Report of its responsibility for the maintenance of the group's system of internal control and for reviewing its effectiveness;
- 16.22 Review the Company's internal financial controls systems and framework established to identify, assess, manage and monitor financial risks.
- 16.23 Monitor corrective action taken for any significant improvement identified of internal controls.

## ***Risk Management***

- 16.24 On behalf of the Board (which retains overall responsibility for risk management), review and ensure oversight of the processes by which risks relating to the Company and its operations are managed, through regular functional reports and presentations, and report any issues arising out of such reviews to the Board;
- 16.25 On behalf of the Board (which retains overall responsibility for risk management), review financial risks through regular functional reports and presentations, and report any issues arising out of such reviews to the Board;
- 16.26 On behalf of the Board (which retains overall responsibility for risk management), review the reporting of climate change related risks through the TCFD framework and regular functional reports and presentations, and report any issues that arise to the Board;
- 16.27 On behalf of the Board (which retains overall responsibility for risk management), review the processes to identifying emerging risks, the impact of principal risks materialising, and the management and mitigation of principal risks to reduce the likelihood of their incidence or their impact;
- 16.28 On behalf of the Board (which retains overall responsibility for risk management) review the narrative risk reporting in the Company's annual report for approval by the Board;
- 16.29 Review the operating effectiveness of the Group's risk management process in supporting the Group's strategy and objectives;
- 16.30 The Chief Legal Officer, who has responsibility for risk will have direct access to the Chair of the Committee.

## ***Whistleblowing***

- 16.31 Review the adequacy and security of the Company's arrangements by which staff may raise concerns or complaints in confidence, against the Company regarding financial reporting or other matters;

## ***Reporting***

- 16.32 Review the statements to be made in the Annual Report on compliance with the corporate governance requirements of the UK Corporate Governance Code, the Disclosure and Transparency Rules, the NYSE listing rules and of the SEC, along with the verification undertaken, including that of the External Auditors, and advise the Board accordingly;
- 16.33 Review the statements to be made in the Annual Report relating to the Strategic Report and corporate governance statements on internal control, and risk management, business model reporting and the viability statement including the disclosure of strategic risks and any mitigating actions;

- 16.34 Produce a report on the activities of the Audit Committee to be included in the Company's Annual Report, explaining the activities undertaken by the Committee in the year, the significant issues considered and how they were addressed;
- 16.35 Advise the Board on whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy;
- 16.36 Explain any significant issues that the Committee considered in relation to the Annual Report and Accounts and how these were addressed and reported to the Board, including any other issues on which the Board requested the Committee's opinion.
- 16.37 Review the Viability Statement to be made in the Annual Report for approval by the Board, including a thorough review of the risk process undertaken to support the making of the statement.
- 16.38 Disclose in the Company's Annual Report details of any issues that cannot be resolved between the Audit Committee and the Board;

## **ADMINISTRATION**

17. The Audit Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure that it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.
18. The Audit Committee is authorised by the Board to seek any information it requires from any employee of the Company in order to perform its duties and call any employee to be questioned at a meeting of the Committee as and when required.
19. Obtain any outside legal or professional advice at the Company's expense.

Reviewed and approved: 15 February 2023

## **Appendix 1**

### **Auditor Independence Policy**

#### **Introduction**

The Auditor should be considered as equal to all other service providers. The Audit Committee hereby mandates that the Auditor's independence should not be breached.

The Audit Committee will ensure that the Auditor does not receive a fee from the Company or its subsidiaries that would be deemed large enough to impact its independence or be deemed a contingent fee. The total fees for permitted non-audit services shall be no more than 70% of the average of the fees paid in the last three consecutive financial years for the statutory audits of the Company and its subsidiaries.

Audit and Non-Audit fees must be disclosed within the annual report.

#### **Process for approval**

The approval of the Group's Audit Committee must be obtained before the external auditor is engaged to provide any permitted non-audit services. The Audit Committee however recognises that the external auditor's internal policies prevent them from carrying out non-audit services.

For permitted non-audit services that are clearly trivial, the Audit Committee has pre-approved the use of the external auditor subject to the following limits:

<b>Value of service requested</b>	<b>Approval required prior to engagement of the external auditor</b>
Up to \$25,000	SVP Group Finance, SVP Group Treasurer & Tax
\$25,000 to \$50,000	Chief Financial Officer
\$50,000 to \$100,000	Chair of the Group's Audit Committee (or delegate)
\$100,000 and above	Group's Audit Committee

#### **Appointment of Ex-employees of the Auditor**

KPMG LLP became the External Auditor of the Company with effect from 9 April 2015. The below policy sets out the rules for employing the Auditor's staff who apply for roles at the Company:

- The Company shall not employ any employee of the Auditor at the managerial (VP level), oversight level (SVP level), or above (Executive Director level) who was directly involved with the previous 2 year-end external audits of the Company.
- Any employee of the Auditor who is appointed at the managerial (VP level), oversight level (SVP level) or above (Executive Director level) must receive prior approval from the Chairman of the Audit Committee.

- Any employee at VP/SVP/Executive Director level is required to notify the Compliance Department if any of their connected persons are employed by the Auditor.
- No Non-Executive Director may be appointed to the Board who was employed at any senior level at the Auditor's in the past 2 years. No Non-Executive Director can be appointed if they previously worked on a Smith & Nephew audit within 2 years.
- Any Non-Executive Director whose connected person is currently employed by the Auditor, or has been in the previous 2 years, must disclose this to the Audit Committee and the Nomination & Governance Committee.

This policy must be taken into consideration when completing audit tenders within the scope of clause 14.3.

### **Permitted audit and audit related services**

- Statutory audit of the Group's consolidated financial statements
- Statutory audits of the financial statements of subsidiary companies
- Review of the group's half-year report and interim financial statements
- Reports required by law or regulation to be performed by the auditor
- Reports on government grants

Audit related services (which are the services listed above other than the audit of the financial statements of the Group, parent company and subsidiaries; and services required by legislation to be performed by the auditor), are still considered non-audit services and are subject to the approval requirements set out in this policy. It is expected that these will be approved as part of the Audit Committee review of the external audit plan.

In addition, other non-audit services may be purchased where they are closely aligned to the external audit function or where, for reasons of effectiveness or efficiency, it is advantageous to use the external auditors because of their knowledge and expertise.

### **Permitted other non-audit services (although it is recognised that the external auditor's internal policies prevent them from carrying out non-audit services)**

- Due diligence related to mergers and acquisitions
- Accounting consultations and audits in connection with acquisitions and disposals of businesses or in relation to proposed transactions
- Investment circular reporting accountant engagements, including comfort letters and consents in relation to documents issued in connection with securities offerings
- Employee benefit plan audits
- Attestation in relation to matters not required by statute or law (e.g. controls reports)
- Consultations concerning financial accounting and reporting standards not relating to the audit of the group, parent or subsidiary undertakings
- Other reports required by regulators or assurance services relating to regulatory developments
- Sustainability audits
- IT security audits (where this does not extend to designing and implementing internal control or risk management procedures)



- Other non-audit services not prohibited by the Ethical Standard

## **Prohibited non-audit services**

The following non-audit services cannot be provided by the external auditor.

- a) Tax services relating to:
  - i. preparation of tax forms\*
  - ii. payroll tax
  - iii. customs duties
  - iv. identification of public subsidies and tax incentives unless support from the audit firm in respect of such services is required by law\*
  - v. support regarding tax inspections by tax authorities unless support from the statutory auditor or audit firm in respect of such inspections is required by law\*
  - vi. calculation of direct and indirect tax and deferred tax\*
  - vii. provision of tax advice\*
- b) Services that involve playing a part in the management or decision-making of the audited entity
- c) Bookkeeping and preparing accounting records and financial statements
- d) Payroll services
- e) Designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems \*\*
- f) Valuation services, including valuations performed in connection with actuarial services or litigation support services\*
- g) Legal services, with respect to:
  - i. the provision of general counsel
  - ii. negotiating on behalf of the audit entity
  - iii. acting in an advocacy role in the resolution of litigation;
- h) Services related to the audit entity's internal audit function
- i) Services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity
- j) Promoting, dealing in, or underwriting shares in the audited entity.
- k) Human resources services with respect to:
  - i. management in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit, where such services involve:
    - a. searching for or seeking out candidates for such positions; or
    - b. undertaking reference checks of candidates for such positions.

- ii. structuring the organisation design
- iii. cost control.

\*\* The services are prohibited in the financial year prior to the year subject to audit (the 'cooling in' period).

\* These services are permitted where approved by the audit committee and where:

- they have no direct or, in the view of an objective, reasonable and informed third party, would have an inconsequential effect, separately or in aggregate, on the audited financial statements;
- the estimation of the effect on the financial statements is comprehensively documented and explained in a report to the audit committee (including consideration of the principles of independence set out in the Ethical Standard); and;
- for the purposes of the statutory audit of the financial statements the audit firm would not place significant reliance on the work performed by the audit firm in performing these services.

In considering whether or non-audit services have a direct or not inconsequential effect on the financial statements the Audit Committee will have regard to the level of uncorrected misstatement that is not reported to the Audit Committee by the external auditors (currently \$1.8m) and whether the potential impact on the financial statements would influence the economic decisions that users make on the basis of the financial statements. The estimation of the effect on the audited financial statements will be assessed on a prudent basis taking account of the relevant circumstances.