

Corporate governance report

Including the report of the Audit Committee

Indemnities

In accordance with the Company's Articles of Association, the Company has always indemnified its Directors to the maximum extent permitted by law in respect of liabilities incurred as a result of their office. Qualifying third-party indemnity provisions (as defined in section 234 of the Companies Act 2006) have been granted to the Directors and the Company Secretary and these remain in force as at the date of this report. The Company has also arranged appropriate insurance coverage in respect of legal action against its Directors and Officers. Neither the Company's indemnity nor insurance would provide any coverage to the extent that a Director is proved to have acted fraudulently or dishonestly.

Board committees

The formal terms of reference for the Board committees, approved by the Board and complying with the Code to assist in the discharge of its duties, are available from the Company Secretary and can also be found on the Company's website at www.wolseley.com. Membership of the various committees is shown below. The Group Company Secretary acts as secretary to all Board committees.

Nominations Committee

The Nominations Committee meets as required and met once during the year ending 31 July 2008. The committee consists of Messrs Davis, Duff, Murray, Stein and Whybrow, who chairs the committee. Mr Walker left the committee on 31 October 2007. Mr Whybrow would not chair the committee or attend if it were to consider the appointment of a successor Chairman. The committee reviews the structure, size and composition of the Board and its committees and makes recommendations with regard to any changes that are considered necessary, both in the identification and nomination of new Directors and the continuation of existing Directors in office. The committee retains external search consultants as appropriate. The committee also advises the Board on succession planning for Board appointments although the Board itself has overall responsibility for succession generally. During the year, the committee reviewed and updated its terms of reference.

Remuneration Committee

The committee consists of Messrs Davis, Stein, Whybrow and Duff, who chairs the committee, all of whom are considered independent within the definition set out in the Code. Messrs Stein and Whybrow were appointed to the committee with effect from 31 October 2007, following the departure of Mr Walker from the Board. The committee met four times during the year and Director attendance for each meeting is shown in the table on page 48. The committee has delegated authority to deal with remuneration matters, including pension rights and any compensation payments on behalf of the Board. It is responsible for setting the remuneration of the Executive Directors and the Group Company Secretary in accordance with the remuneration policy approved by the Board. It is also responsible for determining the fees of the Chairman and for monitoring and approving the remuneration policy in relation to senior managers below Board level. The committee prepares, for the Board's approval, the Remuneration report, which is presented to shareholders at each Annual General Meeting.

During the year, the committee reviewed and updated its terms of reference. The chairman of the committee attends the Annual General Meeting to respond to any questions shareholders may raise on the committee's activities.

Executive Committee

The Executive Directors of the Company together with the Group Chief Information Officer, the Director of Financial Reporting and Strategic Planning, the Group HR Director and the Group Company Secretary and General Counsel, meet at least eight times each year, usually prior to Board meetings. The committee addresses operational business issues and is responsible for implementing strategy and Group policies, day-to-day management and monitoring business performance.

Treasury Committee

The committee consists of the Group Chief Executive, the Chief Financial Officer, who chairs the committee, and the Group Treasurer. The committee's role is to consider treasury policy, including financial structures and investments; tax strategy and hedging policies and certain transactions on behalf of the Group, within a framework delegated by the Board.

Disclosure Committee

The committee consists of the Chairman, the Group Chief Executive, the Chief Financial Officer, who chairs the committee, the Director of Communications and the Group Company Secretary and General Counsel. The committee meets as required to deal with all matters relating to public announcements of the Company and the Company's obligations under the Listing and Disclosure Rules of the UK Listing Authority. The committee also assists in the design, implementation and periodic evaluation of the Company's disclosure controls and procedures.

Audit Committee

The Audit Committee has wide-ranging oversight responsibilities assigned to it by the Board. It reports regularly to the Board on compliance in relation to the business activities for which it has responsibility within its terms of reference.

The committee consists of Messrs Davis, Stein and Murray, who chairs the committee, all of whom are independent Non Executive Directors. The committee's membership is reviewed by the Nominations Committee and by Mr Murray at regular intervals. Members of the committee are appointed by the Board following recommendations by the Nominations Committee.

Each member of the committee brings relevant financial experience at a senior executive level; the expertise and experience of the members of the committee are summarised on page 41. The Board considers that each member of the committee is independent within the definition set out in the Code. Mr Stein is considered by the Board to have significant, recent and relevant financial experience, having been, until September 2007, Finance Director of GKN plc.

All members of the committee receive appropriate induction, which is in addition to the induction which all new Directors receive and includes an overview of the business, its financial dynamics and risks. Members of the committee undertake ongoing training as required. Audit Committee members are expected to have an understanding of the following areas:

- the principles of, contents of and developments in, financial reporting, including the applicable accounting standards and statements of recommended practice and, in particular, the appropriateness of the Company's accounting policies and integrity of the financial statements;
- the Company's wider corporate policies and its financing; and
- the Company's systems of internal control and matters that require the use of judgement in the presentation of accounts and key figures as well as the role of internal and external auditors.

The committee meets regularly throughout the year and its agenda is linked to events in the Company's financial calendar. The agenda is mostly cyclical although each member of the committee may require reports on matters of interest in addition to the regular items. Members' attendance at the meetings held during the year is set out in the table on page 48.

The committee invites the Chairman, the Group Chief Executive, the Chief Financial Officer, the Director of Financial Reporting and Strategic Planning and the Head of Internal Audit, together with senior representatives of the Company's external auditors, to attend each meeting and receive its papers, although it reserves part of each meeting for discussions without the invitees being present. Other senior executives are invited to present such reports as are required for the committee to discharge its duties. The Audit Committee members regularly meet the Head of Internal Audit and the external auditors without the presence of executive management. The Chairman of the Audit Committee attends the Annual General Meeting to respond to any shareholder questions that might be raised on the committee's activities.

The committee assists the Board to fulfil its responsibilities related to external financial reporting and associated announcements. During the year, the matters reviewed, either as a committee or as part of the Board, included:

- the interim and annual financial statements, including the requirements for financial reporting;
- the interim and preliminary announcements made to the London Stock Exchange;
- the Company's trading and interim management statements and, where practicable, all proposed announcements to be made by the Company to the extent that they contained material financial information;
- changes proposed to the Company's policies and practices;
- the documentation in relation to the Company's delisting from the New York Stock Exchange and deregistration from the US Securities and Exchange Commission;
- significant accounting and auditing issues;
- the operation of the Company's whistle-blowing policy;
- litigation and contingent liabilities and tax matters, including contingencies against tax liabilities together with compliance with statutory tax obligations;
- fraud reports; and
- the Company's risk management process.

The committee is also responsible for the development, implementation and monitoring of the Company's policy on external audit and the committee reserves oversight responsibility for monitoring independence, objectivity and compliance with ethical and regulatory requirements.

The committee recommends the appointment and reappointment of the Company's external auditors and annually reviews a formal letter provided by the external auditors confirming their independence and objectivity within the context of applicable regulatory requirements and professional standards.

The committee monitors the rotation of key partners within the external auditors from time to time in accordance with UK regulations. The committee also monitors the extent of non-audit work which the external auditors can perform for the Company, to ensure that the provision of those non-audit services that can be undertaken by the external auditors falls within the agreed policy and does not impair their objectivity or independence. Under the policy, the external auditors cannot be engaged to perform any of the following services:

- book-keeping services related to accounting records or financial statements;
- financial information systems' design and implementation;
- appraisal or valuation services, fairness opinions and contributions in kind reports;
- actuarial services;
- internal audit outsourcing services;
- management functions including human resources;
- broker or dealer, investment adviser or investment banking services; or
- legal and other services unrelated to the audit.

The policy requires pre-approval by the committee of any non-audit work subject to maximum budget levels. The external auditors provide audit-related services such as regulatory and statutory reporting as well as formalities relating to shareholder or other circulars. The external auditors report to the committee any material departures from Group accounting policies and procedures that they identify during the course of their audit work. Within the constraints of applicable UK Ethical Standards, the external auditors undertake due diligence reviews and provide assistance on tax matters given their in-depth knowledge of the Group's business. The provision of non-audit services within such constraints and the agreed policy is assessed on a case-by-case basis so that the best-placed adviser is retained.

During the year, the committee reviewed the effectiveness of the external auditors, which included receiving responses from each of the Group's operating companies and considered whether the agreed audit plan had been fulfilled and the reasons for any variation from the plan. The committee also considered the external auditors' robustness and the degree to which the external auditors were able to assess key accounting and audit judgements and the context of the management letter. In accordance with its remit, the committee reviewed and approved the terms, areas of responsibility and scope of the audit (including schedules of unadjusted errors and representation letters) as set out in the external auditors' engagement letter; the overall work plan for the forthcoming year, together with the cost-effectiveness of the audit as well as the auditors' remuneration and performance; any issues which arose during the course of the audit and their resolution; key accounting and audit judgements; errors identified during the audit; and the recommendations made to management by the auditors and management's response.

Corporate governance report

Including the report of the Audit Committee

The total fees paid to PricewaterhouseCoopers in the year ended 31 July 2008 were £9.2 million (2007: £10.5 million), of which £5.0 million (2007: £4.2 million) related to non-audit work. Further disclosure of the non-audit fees paid during the year ended 31 July 2008 can be found in note 3 to the financial statements on page 74.

The committee also reviews the effectiveness of the Group's internal audit function, including its terms of reference, audit plans, general performance and its relationship with the external auditors. Throughout the year, the committee reviewed the internal audit function's plans and its achievements against such plans. The committee considered the results of the audits undertaken by the internal audit function and considered the adequacy of management's response to matters raised, including the time taken to resolve any such matters. The committee carried out its annual review to consider the effectiveness of the internal audit function using guidance issued by the Institute of Chartered Accountants in England & Wales and the Institute of Internal Auditors – UK.

The committee monitors and reviews the effectiveness of the Group's internal control systems, accounting policies and practices, standards of risk management and risk management procedures and compliance controls as well as the Company's statements on internal controls before they are agreed by the Board for each year's annual report. The Board retains overall responsibility for internal control and for the identification and management of business risk.

The Company's whistle-blowing policy, which is an extension of the Group-wide Code of Ethics, gives details of the international whistle-blowing hotlines which are operated on behalf of the Company by an independent third party. The hotlines facilitate the arrangements whereby employees can make confidential disclosures on accounting, risk issues, internal controls, auditing issues and related matters. Any matters reported are duly investigated and are escalated to the committee, as appropriate. Statistics on the volume and general nature of all disclosures made are reported to the committee on an annual basis. A copy of the Group's Code of Ethics is available on the Company's website at www.wolseley.com.

Each year the committee critically reviews its own performance and considers where improvements can be made. The committee's terms of reference were reviewed and updated during the year.

Meetings attendance

The following table shows the attendance of Directors at meetings of the Board, Audit, Remuneration and Nominations Committees held during the year:

Number of meetings held during the year to 31 July 2008	Board (10)	Audit Committee (4)	Remuneration Committee (4)	Nominations Committee (1)
G Davis	10	4	4	1
A J Duff	10	–	4 ¹	1
C A S Hornsby	10	–	–	1
R H Marchbank	10	–	–	–
J I K Murray	10	4 ¹	–	1 ²
F W Roach	10	–	–	–
N M Stein	10	4	2 ²	1 ²
S P Webster	10	–	–	–
J W Whybrow	9 ¹	–	2 ²	1 ¹

1 Chairman.

2 Appointed to the Committee on 31 October 2007.

This table only shows those meetings which each Director attended as a member rather than as an invitee.

Internal audit

The internal audit function is fully independent of the day-to-day operations of the Group. It is involved in the assessment of the quality of risk management and internal control and helps to promote and further develop effective risk management within the businesses. Certain internal audit assignments (such as those requiring specialist expertise) continue to be outsourced by the Head of Internal Audit to KPMG LLP as required. A policy has been established regarding the recruitment of staff from both KPMG LLP and PricewaterhouseCoopers LLP. The Head of Internal Audit attends all Audit Committee meetings in addition to having regular meetings with the chairman of that committee. The Audit Committee reviews key performance indicators relating to the activity of the department.

Internal control

In a decentralised Group, where local management has considerable autonomy to run and develop their businesses, a well designed system of internal control is necessary to safeguard shareholders' investment and the Company's assets. The Directors have overall responsibility for the Group's systems of internal control and for reviewing their effectiveness. In accordance with the guidance set out in the Turnbull Report 'Internal Control: Guidance for Directors on the Combined Code', an ongoing process has been established for identifying, managing and evaluating the risks faced by the Group and has been in place for the full financial year and up to the date on which the financial statements were approved.

These systems are designed to manage rather than eliminate business risk; safeguard the Group's assets against material loss; fairly report the Group's performance and position; and to ensure compliance with relevant legislation, regulation and best practice, including that related to social, environmental and ethical matters. The systems provide reasonable, not absolute, assurance against material misstatement or loss and are reviewed by the Board regularly to deal with changing circumstances.