

# Audit Committee Report

The Audit Committee is charged with responsibility to the Board for satisfying itself, on behalf of the Board as a whole, that the financial affairs of the Group are conducted with openness, integrity and accountability and in accordance with such existing statutory and regulatory provisions and codes as are applicable to the Group and to report on these matters to the Board.

Its duties are to:

- consider the appointment, resignation or dismissal of the auditors and the level of audit fee;
- discuss with the auditors the nature and scope of the audit;
- review the draft interim and annual financial statements before submission to the Board for approval;
- discuss any problems and reservations arising from the annual audit and any matters the auditors may wish to raise;
- discuss with the auditors the Group's system of internal financial controls and any auditors recommendations for improvement;
- consider the findings of internal investigations and management's response;
- oversee the implementation of systems for financial control and risk management;
- pre-approve non-audit services provided by the auditor;
- review the internal audit programme and its implementation;
- receive and review internal audit reports;
- review treasury policy.

The chairman of the Committee is Stephen King. The other members of the Committee are Christopher Clarke and Michael Dearden. The secretary to the Committee is Alan Mitchelson. In addition the chief executive, group finance director and the internal and external auditors also attend each meeting. The Board is satisfied that Stephen King has recent and relevant financial experience.

The Committee has the ability to call on the Group's staff to assist in their work and also has access to independent advice. The chairman of the Committee receives additional remuneration for his duties, details of which are set out on page 36. The Committee meets each January, March and August and at other times as appropriate. During the March meeting the Committee undertakes a full review of the audit with the Group's auditors.

There were three meetings in 2007. In the course of 2007, the Committee discussed the following matters:

- a) operational issues identified by the auditors in both their audit and interim review;
- b) the Internal Audit Charter and Strategy;
- c) the Group Risk and Control Framework;
- d) the Group accounting policies;

- e) the scope of the function and the findings of internal audit reviews undertaken by PricewaterhouseCoopers LLP and the Internal Auditor;

- f) Corporate Governance Reporting;

- g) the fees for Ernst & Young LLP for 2007;

- h) the audit strategy for year end 2007 audit;

- i) the fraud and error guidelines contained in IAS240; and

- j) the Group 'whistleblowing' policy.

Both the Group internal auditor and PricewaterhouseCoopers LLP undertake their activities in conjunction with the Group's usual peer group review process.

The Committee maintains a policy on the appointment and role of the auditors. This includes guidelines on their appointment which is subject to review at least every five years and on their ongoing work to ensure that the independence of the Group's auditors is not threatened, particularly by the provision of non-audit services. Prior approval of the Committee is required where the expected cost of non-audit services provided by the appointed external auditors is in excess of £75,000.

The day-to-day implementation of the Committee's policy is delegated to the group finance director who in turn monitors the business units to ensure that all engagements fall within the Committee's guidelines. Fees payable to Ernst & Young LLP in respect of audit and assurance services of £1.6m (2006: £1.0m) and transaction support services of £0.7m (2006: £nil) in respect of 2007 were approved by the Committee.

The Group maintains a 'whistleblowing' policy in line with the Public Interest Disclosure Act 1998 to enable employees, on a confidential basis, to raise concerns internally in cases where they believe they have discovered malpractice or impropriety. This is reviewed on an ongoing basis. Complaints can be made either to line managers or directly to the company secretary who will appoint an investigating officer. Action will be taken in cases where the complaint is shown to be justified and at all times the complainant is informed of progress and outcomes. In addition, the auditors Ernst & Young LLP can be brought in to review procedures if appropriate. The 'whistleblowing' policy is published on the Group intranet.

The Committee's terms of reference are available from the company secretary on request and can also be found on the Company's website.

## **Stephen King**

*Chairman of the Audit Committee*

*Signed and approved for and on behalf of the Board*

*11 March 2008*