

Audit Committee Report

Summary of the Role of the Audit Committee

The members of the Audit Committee are appointed by the Board from the non-executive Directors. The main role and responsibilities of the Committee include:

- considering and making recommendations to the Board regarding the appointment of the external auditor, the audit fee, and any questions relating to the resignation or dismissal of the external auditor;
- overseeing the process for selecting the external auditor and making appropriate recommendations for its appointment;
- considering (if appropriate) the degree of any work undertaken by the external auditor for the Group other than the statutory audit;
- assessing annually the independence and objectivity of the external auditor, taking into account the provision, if any, of non-audit services;
- reviewing the half-year and annual Financial Statements before submission to the Board and reporting on them to the Board;
- discussing with the external auditor problems and reservations, if any, arising from the interim and final audits and any other matters the external auditor may raise;
- reviewing the effectiveness of the internal audit function; considering the major findings of internal audit investigations and management's response; ensuring co-ordination between the Group and the external auditor; and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Group;
- reviewing the effectiveness of internal control systems, and the external auditor's management letter and management's response;
- reviewing the effectiveness of the risk management process ensuring that the process is active and dynamic;
- understanding the strategy at both Group and operational levels to ensure that business risks and other relevant issues are effectively identified and communicated to the Board; and
- considering any other topics specifically delegated to the Committee by the Board from time to time.

The Audit Committee is required to report its findings to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and to make recommendations as to the steps to be taken.

The Audit Committee's Terms of Reference may be found on the Company's website.

Composition of the Audit Committee

The members of the Audit Committee, all of whom are independent non-executive Directors, are David Best (Chairman), Ian Much and Michael Steel. All members of the Committee have significant commercial and financial experience at a senior management level. David Best has the recent and relevant financial experience required by the Combined Code to chair the Committee. Two members constitute a quorum for the Committee.

Michael Steel is to retire from the Board at the Annual General Meeting 2011 and will not be standing for re-election. It is planned that a new independent non-executive Director will be appointed to the Audit Committee in 2011 to replace him.

The Board expects the Audit Committee to have an understanding of:

- the principles of, contents of, and developments in financial reporting, including the applicable accounting standards and statements of recommended practice;
- the key aspects of the Group's operations, including corporate policies, Group financing, products and systems of internal control;
- the matters that influence or distort the presentation of accounts and key figures;
- the principles of, and developments in, company law, sector-specific laws and other relevant corporate legislation;
- the roles of internal and external auditing and risk management; and
- the regulatory framework for the Group's businesses.

Meetings

The Audit Committee met three times during the year and has an agenda linked to events in the Group's financial calendar. The agenda is predominantly cyclical, although each Audit Committee member has the right to require reports on matters of interest in addition to the cyclical items.

The Audit Committee normally invites the non-executive Chairman, Group Chief Executive, Group Finance Director, Group Financial Controller, Group Internal Auditor, and senior representatives of the external auditor to attend all of its meetings, although it reserves the right to request any of these individuals to withdraw.

The Audit Committee also holds separate discussions with the internal and external auditor on a regular basis without the presence of executive management.

External Auditor

The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. The Audit Committee is also responsible for monitoring the external auditor's independence, objectivity and compliance with regulatory requirements.

Whilst the Company does not have a policy of subjecting its external auditor to a regular fixed-term rotation, the Committee remains cognisant of the importance of maintaining the objectivity of the Company's external auditor.

The Audit Committee reviews the scope, cost and timing of the work of the external auditor, and acts to ensure its findings are appropriately implemented. The Committee also reviews the level and type of non-audit work carried out by the Company's external auditor. In 2010, £0.2m (2009 – £0.2m) was paid in fees to the external auditor for non-audit work; these fees related to tax compliance and tax advice. The Committee considered it was beneficial for the Company to retain Deloitte LLP for this work because of their expertise in this area and their knowledge of the Group. However, the Committee will continue to monitor the nature and level of such non-audit work, in order to balance the maintenance of objectivity and value for money.

To assess the effectiveness of the external auditor, the Committee reviewed the external auditor's performance during the year and its fulfillment of the agreed audit plan.

To fulfill its responsibility regarding the independence of the external auditor, the Audit Committee reviewed:

- the changes in key external audit staff: the current Audit Partner took over the role by rotation in 2009;
- a report from the external auditor describing the arrangements that had been made to identify, report and manage any conflicts of interest and to maintain its independence;
- the overall extent of non-audit services provided by the external auditor; and
- the FRC's Audit Inspection Unit public report on Deloitte LLP.

The Audit Committee is satisfied with the effectiveness and independence of the external auditor. As a consequence of its satisfaction with the results of the activities of the external auditor, the Audit Committee has recommended to the Board that Deloitte LLP is re-appointed.

Internal Audit Function

The Audit Committee is required to assist the Board to fulfil its responsibilities relating to the effectiveness, resourcing and plans of the Internal Audit function. In 2010, the Audit Committee:

- monitored and reviewed the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- approved the appointment of a new Head of Internal Audit;
- considered and approved the remit of the internal audit function and ensured it had adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee also ensured that the Head of Internal Audit had adequate standing and was free from management or other restrictions;
- reviewed and assessed the annual internal audit plan;
- reviewed reports addressed to the Committee from the Head of Internal Audit; and
- reviewed and monitored management's responsiveness to the findings and recommendations of the Head of Internal Audit.

The Head of Internal Audit has direct access to the Chairman of the Board and to the Audit Committee.

Overview of the actions taken by the Audit Committee to Discharge its Duties

During the year, the Audit Committee:

- reviewed the Financial Statements in the Annual Report 2009, and the Interim Report issued in August 2010, as well as other formal announcements relating to the Group's financial position. As part of this review, the Committee received a report from the external auditor on the audit of the Annual Report 2009 and the work carried out on the Interim Report 2010;
- reviewed the effectiveness of the Group's risk management and internal control systems and disclosures made in the Annual Report 2009;

- reviewed and agreed the going concern basis to be adopted for the 2009 Financial Statements;
- assessed the effectiveness of the 2009 Audit;
- reviewed and agreed the scope of the audit and client service plan to be undertaken by the external auditor for 2010;
- agreed the fees to be paid to the external auditor for the audit of the Financial Statements 2010 and the review of the Interim Report 2010, and the fees to be paid for any non-audit work;
- reviewed the Business Continuity Plans and IT Risk Assessments of the Group's businesses;
- carried out an evaluation of the performance of the external auditor;
- agreed a programme of work for the Head of Internal Audit; and received reports from the Head of Internal Audit on the work he had undertaken and the management responses to the proposals made in his audit reports during the year;
- monitored and reviewed the effectiveness of the Internal Audit function;
- oversaw the appointment of a new Head of Internal Audit following the predecessor's retirement;
- reviewed the Terms of Reference of the Audit Committee;
- reviewed the Group's whistle-blowing policy and procedures; and
- reviewed and agreed the effectiveness of the Audit Committee.

The Board is responsible for the effectiveness of the Group's system of internal control and for the review of its effectiveness; details of the Group's system of internal control can be found within the Operating and Financial Review on pages 10 to 24.

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its Terms of Reference and has ensured the independence and objectivity of the external auditor. The Chairman of the Audit Committee will be available at the AGM 2011 to answer any questions about the work of the Committee.

Approval

This Report was approved by the Audit Committee and signed on its behalf by:

David Best
Chairman of the Audit Committee
25 February 2011