

# ADMIRAL GROUP PLC

(the “Company”)

## TERMS OF REFERENCE OF THE GROUP AUDIT COMMITTEE

Approved: [01/03/11]

### 1 Membership

Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Audit Committee. The Committee shall be made up of at least three members.

All members of the Committee shall be independent non-executive directors, at least one of whom shall have recent and relevant financial experience. The Chairman of the Board shall not be a member of the Committee.

Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Finance Director, Chief Operating Officer, Chief Executive, Chairman of the Board, the heads of Risk, Compliance and Internal Audit and representatives from within the Company may be invited to attend all or part of any meeting as and when appropriate and necessary

The external auditors will be invited to attend meetings of the Committee on a regular basis.

Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three year periods, provided the director still meets the criteria for membership of the Committee.

The Board shall appoint the Committee Chairman who shall be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

### 2. Secretary

2.1 The Company Secretary or their nominee shall act as the secretary of the Committee.

### 3. Quorum

3.1 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 times in the reporting and audit cycle and otherwise as required.

### 5. Notice of meetings

5.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or at the request of external or internal auditors if they consider it necessary.

5.2 Unless otherwise agreed, 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 working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

## **6. Minutes of meetings**

- 6.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.3 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved minutes should be circulated, to all other members of the Board, unless it would be inappropriate to do so.

## **7. Annual General Meeting**

- 7.1 The chairman of the Committee shall attend the Annual General Meeting to answer shareholder questions on the Committee's activities.

## **8. Duties**

The Committee should carry out the duties below for the Company, major subsidiary undertakings and the Group as a whole, as appropriate.

### **8.1 *Financial reporting***

8.1.1 The Committee shall monitor the integrity of the consolidated financial statements of the Group, including its annual and half-yearly reports, interim management statements, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgments which they contain. The Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature. The Committee shall also review the "Parent Company balance sheet" and "Notes to the Parent Company financial statements" included in the Annual Report and the separate individual annual financial statements of the Company. Approval of the financial statements of individual subsidiary undertakings within the Group is the responsibility of the Board of Directors of the respective individual subsidiary undertakings.

8.1.2 The Committee shall review and challenge where necessary:

- 8.1.2.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/group;
- 8.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
- 8.1.2.3 whether the company has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor;
- 8.1.2.4 the clarity of disclosure in the company's financial reports and the context in which statements are made; and
- 8.1.2.5 all material information presented with the financial statements, such as the business review/operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).

## 8.2 *Internal controls and risk management systems*

The Committee shall:

- 8.2.1 keep under review the adequacy and effectiveness of the Company's internal financial controls, compliance and internal control and risk management systems; including
  - 8.2.1.1 review management's and the internal auditor's reports on the effectiveness of the systems for internal financial control, financial reporting and risk management;
  - 8.2.1.2 monitor the integrity of the company's internal financial controls and
  - 8.2.1.3 assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non financial risks.
- 8.2.2 review and approve the statements to be included in the annual report concerning internal controls and risk management.

## 8.3 *Whistleblowing and fraud*

The Committee shall

- 8.3.1. review the adequacy and security of the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action; and
- 8.3.2. review the Company's procedures for detecting fraud.
- 8.3.3. review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.
- 8.3.4. review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the company's anti-money laundering systems and controls.

## 8.4 *Internal audit*

The Committee shall

- 8.4.1 monitor and review the effectiveness of the Company's internal audit functions in the context of the Company's overall risk management systems;
- 8.4.2 approve the appointment and removal of the heads of the internal audit functions;
- 8.4.3 consider and approve the remit of the internal audit functions and ensure they have adequate resources and appropriate access to information to enable them to perform their functions effectively and in accordance with the relevant professional standards. The Committee shall also ensure the functions have adequate standing and are free from management or other restrictions;
- 8.4.4 review and assess the annual internal audit plans;
- 8.4.5 review promptly all reports on the Company from the internal auditors;

- 8.4.6 review and monitor management's responsiveness to the findings and recommendations of the internal auditors; and
- 8.4.7 meet the heads of internal audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the heads of internal audit shall be given the right of direct access to the Chairman of the Board and to the Committee.

## 8.5 *Compliance*

The Committee shall

- 8.5.1 monitor and review the effectiveness of the Company's Compliance functions in the context of the Company's overall risk management system;
- 8.5.2 consider and approve the remit of the Compliance functions and ensure they have adequate resources and appropriate access to information to enable them to perform their functions effectively. The Committee shall also ensure the functions have adequate standing and are free from management or other restrictions;
- 8.5.2 review and assess the annual compliance review plans;
- 8.5.4 review promptly all reports on the Company from the Compliance functions;
- 8.5.5 review and monitor management's responsiveness to the findings and recommendations of the compliance reviews; and
- 8.5.6 meet the Compliance Officers (or overseas equivalents) at least once a year, without management being present, to discuss their remit and any issues arising from the compliance reviews carried out. In addition, the Compliance Officers shall be given the right of direct access to the Chairman of the Board and to the Committee.

## 8.6 *External Audit*

The Committee shall

- 8.6.1 consider and make recommendations to the board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required.
- 8.6.2 oversee the relationship with the external auditor including (but not limited to):
  - 8.6.2.1 recommendations on their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
  - 8.6.2.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 8.6.2.3 assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;

- 8.6.2.4 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the company (other than in the ordinary course of business);
- 8.6.2.5 agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
- 8.6.2.6 monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements;
- 8.6.2.7 assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
- 8.6.2.8 seeking to ensure co-ordination with the activities of the internal audit function;
- 8.6.3 meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present; to discuss their remit and any issues arising from the audit.
- 8.6.4 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
- 8.6.5 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
  - 8.6.5.1 a discussion of any major issues which arose during the audit;
  - 8.6.5.2 any accounting and audit judgments;
  - 8.6.5.3 levels of errors identified during the audit.
  - 8.6.5.4 the effectiveness of the audit process.
- 8.6.6 review any representation letter(s) requested by the external auditor before they are signed by management.
- 8.6.7 review the management letter and management's response to the auditor's findings and recommendations.
- 8.6.8 develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.
- 8.7 *Reporting responsibilities*
  - 8.7.1 The Committee chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
  - 8.7.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
  - 8.7.3 The Committee shall produce a report on its activities to be included in the company's annual report.
- 8.8 *Other matters*

The Committee shall

- 8.8.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required.
- 8.8.2 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.
- 8.8.3 give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable Rules, as appropriate.
- 8.8.4 be responsible for co-ordination of the internal and external auditors.
- 8.8.5 oversee any investigation of activities which are within its terms of reference.
- 8.8.6 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 Board for approval.

## **9. Authority**

The Committee is authorised:

- 9.1 to seek any information it requires from any employee of the company in order to perform its duties.
- 9.2 to obtain, at the company's expense, outside legal or other professional advice on any matter within its terms of reference.
- 9.3 to call any employee to be questioned at a meeting of the Committee as and when required.
- 9.4 to have the right to publish in the Company's annual report details of any issues that cannot be resolved between the Committee and the Board.