

# ADMIRAL GROUP PLC

(the “Company”)

## TERMS OF REFERENCE OF THE GROUP AUDIT COMMITTEE

Approved: [05~09~06]

In these Terms of Reference the following terms shall have the following meanings:

the “**Board**” means the board of directors of the Company

the “**Committee**” means the Group Audit Committee

the “**Group**” means the Company and its subsidiaries

### 1 Membership and training

- 1.1 There should be three members of the Committee and they should be independent, non-executive directors of companies in the Group, a majority of whom should be members of the Board.
- 1.2 Appointments to the Committee should be for up to three years extendable for up to two additional three-year periods, providing the director remains independent. They shall be made by the Board on the recommendation of the Nomination Committee in consultation with the Committee Chairman. The Chairman of the Committee should be appointed annually by the Board from amongst the independent non-executive directors. In the absence of the Committee Chairman the remaining members shall elect one of themselves to chair the meeting.
- 1.3 At least one member of the Committee should have significant, recent and relevant financial experience. An induction programme should be provided for new Committee members. This covers the role of the Committee, including its terms of reference and expected time commitment by members; and an overview of the Group’s business, identifying the main business and financial dynamics and risks. It also includes meeting staff, as appropriate.
- 1.4 The Audit Committee members should be given ongoing training, which should cover an understanding of the principles of, and developments in, financial reporting, related company law, the regulatory framework for the Group’s business and risk management.
- 1.5 The Committee may ask the Chairman, Chief Executive, Finance Director and any relevant senior management to attend meetings either regularly or by invitation, but the invitees have no right of attendance.

#### *Members*

Members                      Martin Jackson (Chairman), Keith James, Margaret Johnson.

Right to attend:            Any non-executive director of the Board

Invited to attend:	Internal Audit Manager Kevin Chidwick, Group Finance Director Henry Engelhardt, CEO Risk Manager/Compliance Officer. External Audit Partner and/or Manager
Secretary	The Company Secretary or their nominee

Audit Manager to have unfettered access to the chairman of the audit committee.

External Audit representative to be present at meetings for accounts review purposes.

## **2 Quorum**

2.1 The quorum necessary for the transaction of business shall be any two members including the non-executive Chairman of the Committee. 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 in or excisable by the Committee.

## **3 Frequency of meetings**

3.1 The Committee should meet not less than three times in a year and meetings should coincide with the financial reporting cycle. The external or internal auditors may request a meeting if they consider that one is necessary.

## **4 Notice of meetings**

4.1 Committee meetings shall be summoned by the Secretary of the Committee at the request of any of its members or at the request of any of its members or at the request of external or internal auditors if they consider it necessary.

4.2 Notice of each meeting, confirming the date, time and venue of the meeting, the agenda to be discussed and any supporting papers, shall be forwarded no fewer than 5 days prior to the date of the meeting to each member of the Committee, any other person required to attend and all the other non-executive directors, unless they agree otherwise to receive agenda and minutes only..

4.3 Sufficient time should be given between meetings of the Committee and the publication of financial information so that there is time for any issues that may have arisen to be resolved.

## **5 Minutes of meetings**

- 5.1 The Secretary, or his nominee, shall minute the proceedings and resolutions of all Committee meetings including the names of all those present and in attendance.
- 5.2 At the beginning of each meeting the Secretary should ascertain whether any conflicts of interest exist and minute them accordingly. Where there is a conflict and the chair of the Committee determines that it is material, then he has the power to exclude that Committee member from discussions on that issue.
- 5.3 The minutes of all Committee meetings shall be circulated to all members of the Committee promptly and, once agreed to the Chairman and all members of the Board.

## **6 Objective, authority and relationship with the Board**

- 6.1 The objective of the Group Audit Committee (the Committee) is to ensure the effectiveness and appropriateness of the systems of internal control and risk management by which the management of Admiral Group Plc (AG) and its subsidiary companies (the Group) ensure full compliance with the requirements of all-relevant regulations and legislation.
- 6.2 The Committee is authorised by the AG Board (the Board) to investigate any activity within its terms of reference and to seek any information it requires from any employee to enable it to discharge its obligations and duties. The Committee shall have access to all records of the Group and any internal or external reports relating thereto.
- 6.3 The Committee should review annually its terms of reference and its own effectiveness and recommend any necessary changes to the Board.
- 6.4 The Board should review the Committee's effectiveness annually.
- 6.5 Membership of the Committee and attendance shall be noted in the annual Director's Report along with a report on its activities.
- 6.6 The Committee is authorised by the Board at the expense of the Group to obtain legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. The Committee should be provided with sufficient resources to undertake its duties.
- 6.7 Where there is disagreement between the Committee and the Board, adequate time should be made available for discussion of the issue with a view to resolving the disagreement. Where any such disagreements cannot be resolved, the Committee should have the right to report the issue to the shareholders as a part of the report on its activities in the annual financial statement.
- 6.8 The Chairman of the Audit Committee will provide an oral report to the Board not less than three times in one year. The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board. Some of the reports considered by the Audit Committee may be reproduced in whole or

summary form for the Board in support of the Board's independent review function.

6.9 The Committee shall compile a report to the shareholders on its activities that shall be included in the company's Annual Report

6.10 The Audit Committee papers will be made available to other directors on request.

## **7 Annual General Meeting**

7.1 The Chair of the Committee shall attend the Annual General Meeting prepared to respond to any questions that shareholders may have concerning the activities of the Committee.

## **8 Financial Reporting**

8.1 The Committee shall monitor the integrity of the Group's financial statements (including related information in the operating and financial review, corporate governance statements relating to the audit and risk management) and any formal announcements relating to the Group's financial performance, reviewing the significant financial reporting issues and judgements contained in them before submission to the Board. The Committee should also review any other financial information that is released externally, including that of a price sensitive nature. The review should focus on:

8.1.1 Critical accounting policies and practices and any changes in them;

8.1.2 The extent to which the financial statements are affected by any unusual transactions and how clearly they are disclosed;

8.1.3 Major judgmental areas;

8.1.4 Significant adjustments resulting from the audit;

8.1.5 Any off-balance sheet activities/accounting;

8.1.6 The going concern and internal control statements;

8.1.7 Ensure that there is clarity of disclosure in the financial reports of the company and that the context within which statements are made is clear;

8.1.8 Review all material information also included within the financial statements, including operating and financial reviews and the corporate governance statement;

8.1.9 Compliance with accounting standards; and

8.1.10 Compliance with regulatory and legal requirements, including those of the UK listing authority.

8.1.11 Receive any representation letter(s) requested by the external auditor before they are signed by management.

8.2 Receive, consider and make recommendations to the Board relating to the report of the external auditors. Report to the relevant boards upon completion of the review.

## **9 Internal Controls and Risk Management System**

- 9.1 The Committee shall regularly review the Group's approach to internal controls, Compliance, and risk management in the context of its business.
- 9.2 The Committee shall review the Company's statement on internal control systems and risk management prior to endorsement by the Board and inclusion in the Annual Report.
- 9.3 The findings of internal investigations and managements response should be considered.
- 9.4 Through Internal Audit, review and report to the Board and any relevant subsidiary on the appropriateness and effectiveness of the Group's internal financial control, compliance and risk management systems.
- 9.5 Monitor and review the effectiveness of the internal audit function in the overall context of the Group's risk management system. The Committee should, inter alia,
  - 9.5.1 Review and assess the annual internal audit work plan, including arrangements for monitoring of compliance systems;
  - 9.5.2 Consider and approve the remit of the internal audit function and ensure it has 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 shall also ensure the function has adequate standing and is free from management or other restrictions.
  - 9.5.3 Review the policies and processes for identifying and assessing business risks and the management of these risks by the Group.
  - 9.5.4 Receive a report on the results of the internal auditors' work on a periodic basis.
  - 9.5.5 Review and monitor management's responsiveness to the internal auditor's findings and recommendations.
  - 9.5.6 Meet with the head of internal audit and the Group Compliance Officer at least once a year without the presence of management. In addition, the head of internal audit shall be given the right of direct access to the Chair of the Board and to the Committee.
  - 9.5.7 Review and approve the line reporting arrangements for the internal auditor.
  - 9.5.8 Approve the appointment and termination of the Internal Audit Manager and the Group Compliance officer.

#### 9.6 Whistle Blowing

The Committee shall review the procedures that have been put in place to enable employees to raise their concerns, in confidence, about any possible wrongdoing in relation to financial reporting or other matters. These arrangements must allow for reasonable independent investigation of such matters and any appropriate follow up action.

- 9.7 The Committee shall monitor and review the independence, objectivity and effectiveness of the external auditors. The Committee shall, inter alia,
- 9.7.1 Review and agree the engagement letter issued by the external auditor at the start of each audit, including a review of the scope of the proposed work.
  - 9.7.2 Consider whether the external auditor's work plan, including planned levels of materiality, and proposed resources to execute the audit plan, appears consistent with the scope of the audit engagement, having regard also to the seniority, expertise and experience of the audit firm.
  - 9.7.3 Assess annually the qualification, expertise and resources of the external audit firm.
  - 9.7.4 At the end of the annual audit cycle, the Committee should assess the effectiveness of the audit process, including adherence to the agreed audit plan; the handling of the key accounting and audit judgements and questions from the Committee; and the management letter on the systems of internal control.
  - 9.7.5 Annually, at least, consider all relationships between the Group and the external audit firm (including the provision of non-audit services) and whether, taken as a whole and having regard to the views, as appropriate, of the external auditor, the Group's management and internal audit, those relationships appear to impair the external auditor's judgement or independence.
  - 9.7.6 Seek information on policies and processes for maintaining independence, including requirements regarding the rotation of audit partners and staff, and reassurance that the external audit firm and their staff have no family, financial, employment, investment or business relationship with the Group (other than in the normal course of business).
  - 9.7.7 Monitor compliance with relevant ethical guidelines governing the accounting profession, including the employment by the Group of former employees of the external audit firm, the rotation of audit partners and the level of fees that the Group pays relative to the overall income of the audit firm, office and partner.
  - 9.7.8 Obtain a report on the external audit firm's own internal quality control procedures.
- 9.8 Consider and if appropriate endorse the recommendations of the Finance Director to the board in relation to the (re)appointment and remuneration of the external auditors – such appointment to be put to shareholders for approval at the AGM. The Committee should satisfy itself that the level of fee payable in respect of the audit services provided is appropriate and that an effective audit can be conducted for such a fee. If the external auditor resigns, the Committee shall investigate the issues giving rise to such resignation and consider whether any action is required.
- 9.9 Develop and implement policy on the engagement of the external auditors to supply non-audit services to ensure that the provision of such services does not impair the external auditor's independence or objectivity. The policy should take into account relevant ethical guidance and the annual report to

shareholders should explain how, if the external auditor provides non-audit services, auditor objectivity and independence is safeguarded.

- 9.10 Where such monitoring and review activities, described in points 9 above, reveal cause for concern, or scope for improvement, the Committee should make recommendation to the Board and any relevant subsidiary on the action needed to address the issues or to make improvements.