

B. P. MARSH & PARTNERS PLC

TERMS OF REFERENCE FOR AUDIT COMMITTEE

THE AUDIT COMMITTEE

Terms of reference

(Adopted by the board on 26 January 2006)

1. The Audit Committee

The Audit Committee:

- (a) is a sub-committee of the board and shall make recommendations to the board which retains the right of final decision;
- (b) is composed of the non-executive directors with a quorum of two;
- (c) has the primary responsibility of reviewing the financial statements and the accounting principles and practice underlying them, liaising with the external and reviewing the effectiveness of internal controls; and
- (d) will meet at least twice a year but sufficiently frequently and for long enough to perform its duties effectively.

2. Main role and responsibilities

The main role and responsibilities of the Audit Committee are to:

- (a) monitor the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them;
- (b) review the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors or by the board itself, the company's internal control and risk management systems;
- (c) make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- (d) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- (e) develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and
- (f) report to the Board, identifying any matters in respect of which it considers that action or improvement is needed.

3. Membership

- 3.1 There should be a minimum of two members.
- 3.2 Membership should be confined to non-executive directors.
- 3.3 The majority of members, apart from directors' fees and shareholding, should be independent of management and free from any involvement which might significantly interfere with their ability to judge matters independently.
- 3.4 The company secretary shall be the committee secretary and proper minutes shall be kept of its proceedings which shall be circulated to all directors of the company, and, if the Audit Committee so chooses, to the company's external auditor.

4. Meetings

- 4.1 Audit Committee meetings shall be held not less than two times a year, to discuss general audit matters, the interim and full year report and statements. The external auditor may request a meeting if they consider that one is necessary.
- 4.2 The external auditor, and the finance director/controller of the company should normally attend meetings of the Audit Committee without being members.
- 4.3 Other executive directors of the company may attend meetings by invitation of the Audit Committee, without being members.

5. Chairman

The members of the Audit Committee will elect one of the members of the Audit Committee to act as chairman of the Audit Committee and he will be responsible for:

- (a) preparing the agenda;
- (b) the timely distribution of the agenda and any supporting papers;
- (c) reporting to the board on issues and decisions made; and
- (d) answering questions about the Audit Committee's work at the AGM.

6. Authorisation

- 6.1 The Audit Committee is authorised by the board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees will be directed by the board to co-operate with any request made by the Audit Committee.
- 6.2 The Audit Committee is authorised by the board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. This authority is subject only to the requirement that independent advice is sought at a reasonable cost commensurate with the matter under review.

7. Duties

The duties of the Audit Committee shall be as follows.

7.1 *External reporting*

- (a) Review the interim and final financial statements before submission to the board, focusing particularly on:
 - (i) any change in accounting policies and practices;
 - (ii) any major judgemental areas;
 - (iii) any significant adjustments resulting from the audit;
 - (iv) the going concern assumption;
 - (v) compliance with accounting standards;
 - (vi) compliance with applicable regulatory and legal requirements;
and
 - (i) compliance with best practice in the area of corporate governance.
- (b) Review the annual report in its entirety.
- (c) Review the summary financial reports.
- (d) Review circulars issued in respect of takeovers, defences against takeovers and other major non-routine transactions.
- (e) Review press statements and advertisements relating to financial matters prior to their issue.

7.2 *External auditor*

- (a) Consider the appointment of the external auditor and any questions of resignation or dismissal.
- (b) Review the proposed audit fee and keep under review the scope and results of the audit and its cost effectiveness.
- (c) Prior to the audit commencing, discuss the nature, scope and timing with the external auditor and ensure co-ordination where more than one audit firm is involved.
- (d) Discuss any problems and reservations arising with the interim and final accounts audits and any matters the auditor may wish to raise.
- (e) Discuss the meaning and significance of audited figures and any notes thereto.
- (f) Review the external auditors' evaluation of the company's internal controls, the management letter and the management's response.

- (g) Review any factors that might impair, or be perceived to impair, the external auditor's independence and objectivity. Where the auditor also supplies a substantial volume of non-audit services to the company, keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money.
- (h) Arbitrate in any disputes between the auditors and management.
- (i) Consider periodically an assessment by the external auditor of the quality of accounting and finance personnel in the group.

7.3 *Internal controls*

- (a) Review the effectiveness of the group's internal control systems.
- (b) Discuss any problems in carrying out audits, major findings and adequacy of controls.
- (c) Ascertain actions taken on recommendations.
- (d) Review the company's' statement on internal controls prior to endorsement by the board, report to the board regularly and make recommendations to the board regarding the effectiveness of the group's internal control systems. The Audit Committee's reviews should include:
 - (i) the authority, resources and co-ordination of those involved in the identification, assessment and management of significant risks faced by the group;
 - (ii) response to the significant risks which have been identified by management and others;
 - (iii) monitoring of the relevant reports by the Group's management;
 - (iv) the maintenance of a control environment directed towards the proper management of risk; and
 - (v) annual reporting procedures.
- (e) Consider from time to time appointing a "risk sub-committee" and (with any risk sub-committee) to keep abreast of all changes made to the group's system of internal controls and to follow up on areas which require improvement.

7.4 *Other matters*

- (a) Enquire into illegal, questionable or unethical activities.
- (b) Adherence of officials to the corporate code of conduct.
- (c) Review any significant transactions outside the company's normal business.
- (d) Initiate special projects or investigations on any matter within its term of reference.

- (e) Review the efforts of the company to comply with social and environmental obligations.
- (f) Ensure that the board, and especially the non-executive directors, receive timely relevant and reliable information, tailored to assist them with monitoring the business and taking important decisions.
- (g) Consider other topics as defined by the board from time to time.