

### Membership

1. 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 consist of not less than three members all of whom shall be independent non-executive directors. At least one member of the Committee should have recent and relevant financial experience. Care should be taken to minimise the risk of any conflict of interest that might be seen to give rise to unacceptable influence.
2. The Chairman of the Board can be a member of, but not chair, the Committee, provided he or she was considered independent on appointment.
3. 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 non-executive director remains independent.
4. The Chairman of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee. In the absence of the Committee Chairman and / or an appointed deputy, the remaining members present shall elect one of their numbers present to chair the meeting.
5. The quorum necessary for the transaction of business shall be 2 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.

### Attendance at Meetings

6. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman of the Board, the Chief Executive Officer, the Group Chief Financial Officer, other directors, the Head of Risk & Audit, compliance and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate. The external auditors will be invited to attend meetings of the Committee on a regular basis.
7. The Committee may also request the attendance of any employee or director whose participation will enhance the discussion of any particular agenda item. However, at least once a year the Committee shall meet with the external auditors without members of the executive Board present. At least annually, the Committee will meet with the Head of Risk & Audit without members of the executive Board present.
8. The Company Secretary, or their nominee, shall be the Secretary of the Committee.

### Frequency and Notice of Meetings

9. Meetings shall be held not less than three times a year at appropriate times in the reporting and audit cycle and otherwise as required. Meetings 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.
10. 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 Committee member, any

other person required to attend and all other non-executive directors, no fewer than 5 working days prior to the meeting date. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time or as soon as possible.

### **Authority**

11. The Committee is authorised by the Board, at the Company's expense (to the agreed limit), to investigate, or arrange an investigation of, any activity within its terms of reference. In performing its duties, the Committee is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
12. The Committee is authorised by the Board, at the Company's expense (to the agreed limit), 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.

### **Objectives**

13. The Audit Committee's objectives will include: monitoring the integrity of the financial reporting systems, examining management's processes for ensuring the appropriateness and effectiveness of internal controls and risk management systems, examining arrangements made by management to ensure compliance with requirements and standards under the regulatory system, reviewing arrangements in respect of whistle blowing and fraud, overseeing the functioning of the internal audit function and providing an interface between management and the external auditors.

### **Reporting**

14. The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance. The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board.
15. Any significant matters raised by the Committee in respect of its responsibilities for oversight of the compliance framework should be fed back, as appropriate, to the boards of regulated entities.

### **Duties and Responsibilities**

16. The Committee shall, in conjunction with the Board, carry out the duties and responsibilities detailed in sections 17-29 below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

### **Financial Reporting**

17. The Committee shall monitor the integrity of the 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 judgements which they contain. The Committee shall also review summary financial statements, significant returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.
18. The Committee shall review and challenge where necessary:

- 18.1 The consistency of, and any changes to, accounting policies both on a year on year basis and across the Group
- 18.2 The methods used to account for significant or unusual transactions where different approaches are possible
- 18.3 Whether the Group has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor
- 18.4 The clarity of disclosure in the Group's financial reports and the context in which statements are made; and
- 18.5 All material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit & risk management);

### **Internal Controls and Risk Management Systems**

#### **19. The Committee shall:**

- 19.1 Keep under review the effectiveness of the Group's internal controls and risk management systems
- 19.2 Review the policies and procedures for identifying business risks and strategies for managing and controlling their financial impact on the Group
- 19.3 Review the Group's policies for ensuring compliance with relevant regulatory and legal requirements. This includes arrangements established by management for compliance, though not compliance itself, with regulatory reporting requirements contained in statute and with the requirements of supervisors
- 19.4 Attend meetings, as required, with regulators - in particular the Committee Chairman may be required to meet supervisors from the Financial Services Authority
- 19.5 Keep under review the Group obtaining & maintenance of authorisations required by the Financial Services Authority for the purpose of its businesses as insurer and insurance intermediary
- 19.6 Keep under review the Group's Information Security Policy, the obtaining and maintenance of ISO27001 accreditation in order to preserve membership of APACS and the obtaining and maintenance of PCI accreditation
- 19.7 Review the operational effectiveness of the policies and procedures; and
- 19.8 Review and approve the statements to be included in the annual report concerning internal controls and risk management (unless this is done by the Board as a whole)

## **Whistle blowing and Fraud**

20. The Committee shall:

- 20.1 Review the Group'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
- 20.2 Review the company's procedures for preventing and detecting fraud

## **Internal Audit**

21. The Committee shall:

- 21.1 Monitor and review the effectiveness of the company's Internal Audit function in the context of the company's overall risk management system
- 21.2 Approve the appointment and removal of the Head of Risk & Audit, who shall be accountable to the Audit Committee
- 21.3 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
- 21.4 Review and assess the annual Internal Audit plan
- 21.5 Review promptly all reports on the company from the Internal Auditors
- 21.6 Review and monitor management's responsiveness to the findings and recommendations of Internal Audit; and
- 21.7 Meet the Head of Risk & 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 Head of Risk & Audit shall be given the right of direct access to the Chairman of the Board and to the Committee Chairman

## **External Audit**

22. The Committee shall:

- 22.1 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 Group'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
- 22.2 Oversee the relationship with the External Auditor including (but not limited to)
- 22.3 Approval of 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

- 22.4 Approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit
- 22.5 Assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services
- 22.6 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)
- 22.7 Agreeing with the Board a policy on the employment of former employees of the company's auditor, then monitoring the implementation of this policy
- 22.8 Monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Group compared to the overall fee income of the firm, office and partner and other related requirements
- 22.9 Assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures
- 22.10 Seeking to ensure co-ordination with the activities of the Internal Audit function
- 22.11 Considering the risk of the withdrawal of the company's present auditor from the market
- 22.12 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
- 22.13 Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement
- 22.14 Review the findings of the audit with the External Auditor. This shall include but not be limited to, the following:
  - 22.14.1 A discussion of any major issues which arose during the audit
  - 22.14.2 Any accounting and audit judgements
  - 22.14.3 Levels of errors identified during the audit

23. The Committee shall also review the effectiveness of the audit

- 23.1 Review any representation letter(s) requested by the External Auditor before they are signed by management
- 23.2 Review the management letter and management's response to the auditor's findings and recommendations

- 23.3 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

### **Reporting Responsibilities**

24. The Committee Chairman, or in his absence another Committee member, shall report formally to the Board on its proceedings after each meeting on all significant matters within its duties and responsibilities
25. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed
26. The Committee shall compile a report to shareholders on its activities to be included in the Group's annual report
27. The Committee Chairman shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

### **Other Matters**

28. The Committee shall:
- 28.1 Have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required
  - 28.2 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
  - 28.3 Give due consideration to laws and regulations, the provisions of the Combined Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules as appropriate
  - 28.4 Be responsible for co-ordination of the internal and external auditors
  - 28.5 Oversee any investigation of activities which are within its terms of reference and act for internal purposes as a court of the last resort
  - 28.6 At least once a year, review its own performance, 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

### **Reporting procedures**

29. The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance. The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board. The Chairman of the Committee, or in his absence

another Committee member, will raise any significant matters arising at the next Board meeting. The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

30. Any significant matters raised by the Committee in respect of its responsibilities for oversight of the compliance framework should be fed back, as appropriate, to the boards of regulated entities.

**Approved by the CPPGroup PLC Board on 27 October 2010**