

Manual – Section 3.4

3.4 Group Audit Committee – Terms of Reference

3.4.1 Purpose of Committee

- The Group Audit Committee (the Committee) is a committee of the Board of Old Mutual plc established to review the principles, policies and practices adopted in the preparation of the financial statements of Old Mutual plc and its subsidiaries (the Group) and to assess whether the interim and annual financial statements of Old Mutual plc and any other formal announcements relating to the Company's financial performance comply with all statutory and stock exchange requirements.
- The purpose of the Committee is to assist the Board in discharging its responsibilities for the integrity of the Company's financial statements and the effectiveness of the systems of governance, systems of risk management and internal control and monitoring the effectiveness and objectivity of the internal and external auditors.
- These terms of reference include for completeness detail of all areas which the Committee may need to consider during the year to meet this overall purpose. The extent to which each individual item is actually covered each year will depend upon the materiality of the item in the overall group context.
- The Committee will work closely with the Board Risk Committee.
- The Committee shall report to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.

3.4.2 Scope of the Committee

- The scope of the Committee extends across the whole Group.

3.4.3 Operation of the Audit Committee

• Members and Quorum

- The Committee and its Chairman shall be appointed by the Board from among the independent Non-Executive Directors of Old Mutual plc. It shall consist of not less than three members, at least one of whom must have recent and relevant financial experience. The Chairman of the Company should not be a member of the Committee.
- Appointments to the Committee will be made by the Board on the recommendation of the Nomination Committee, in consultation with the Chairman of the Group Audit Committee.

- There will be some cross-membership between the Committee and the Board Risk Committee, with typically, the Chairman of one of the committees serving as a member of the other.
- The Board shall from time to time review and, where appropriate, revise the composition of the Committee in accordance with recommendations received from the Nomination Committee, taking into account the need for an adequate combination of financial and business skills and knowledge.
- A quorum shall be two members.
- **Attendees**
 - The Group Finance Director, Group Internal Audit Director, Group Chief Risk Officer, Group Chief Actuary and a representative of the external auditors shall normally be invited to attend meetings. Other Board members may also attend at the invitation of the Committee.
 - The Committee or its Chairman should meet annually, or as requested, with the external auditors, the Group Internal Audit Director and management in separate sessions to discuss any matters that the Committee or these groups believe should be discussed privately with the Committee.
 - The Group Company Secretary shall be the secretary of the Committee.
 - From time to time the Chairman of the Committee may attend meetings of the audit committees of the major subsidiaries.
- **Frequency**
 - Meetings of the Committee will be held not less than four times a year, held to coincide with key dates within the financial reporting and external audit cycle.
- **Training**
 - The Committee, via the Company Secretary, shall make available to new members of the Committee a suitable induction process and, for existing members, ongoing training where appropriate and as discussed with the Committee.
- **Minutes**
 - The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board, and the Chairman of the Committee shall report on the Committee's proceedings and findings to the next meeting of the Board.
- **Roles & Responsibilities - Accounting and Financial Reporting**
 - To review and monitor the integrity of Old Mutual Group's interim and annual financial statements and any other formal announcements relating to the Company's financial

performance (and, if requested by the Board, any other price-sensitive public reports by the Company or reports by the Company to regulators) before submission to the Board, focusing particularly on:

- significant financial reporting judgements and estimates;
 - clarity and completeness of disclosure and whether disclosures made have been set properly in context;
 - quality and acceptability of, and any changes in accounting policies and practices;
 - compliance with accounting standards, stock exchange and legal requirements;
 - significant adjustments and/or unadjusted differences resulting from the external audit;
 - reflection of unusual circumstances or events and management's explanation for the accounting treatment adopted;
 - reasons for major year-on-year fluctuations; and
 - basis for the going concern assumption.
- To discuss and resolve any significant problems or reservations arising from the interim and final audits and any matters the external auditors wish to discuss (in the absence of management, where necessary).
 - To review measures to enhance the credibility and objectivity of the financial statements.
 - To report its views to the Board where, following its review, the Committee is not satisfied with any aspect of the proposed financial reporting by the Company.
- **Roles & Responsibilities - Actuarial matters**
 - The Committee shall review, in conjunction with the Group Chief Actuary, the actuarial content of the insurance figures that are included in the externally published Old Mutual plc financial statements (interim and annual) to verify appropriateness of the actuarial methods and assumptions used and changes thereto and the appropriateness of the financial results that depend on actuarial calculations.
 - The Board of Old Mutual plc is ultimately responsible for the economic balance sheet (including the market consistent embedded value (MCEV) assumptions) and the economic risk based capital. To the extent that these items are included within the published financial statements of the Group, the Committee will assist the Board, as requested, to satisfy itself that those assumptions are appropriate. This will include:

- A review of a report from the Group Chief Actuary and Group Finance Director; and
- Confirmation from the Board Risk Committee that the assumptions properly reflect the risk profile of the Group.
- The Committee will review the valuation bases (for valuing policy liabilities and for embedded value purposes) and any material changes proposed thereto.
- The Committee will receive comment from the external auditors on their review of the actuarial liabilities, profit and embedded value and, where appropriate, any published risk based capital measures that are subject to external audit review.
- Without prejudice to the duties and obligations imposed on him or her by applicable law or regulation, the Committee may define the role and duties of the Group Chief Actuary and provide guidelines or requirements relating to his or her functions from time to time.
- **Roles & Responsibilities - External Audit**
 - To make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditors.
 - To approve the remuneration and terms of engagement of the external auditors. If the external auditors resign, the Committee should investigate the issues giving rise to such resignation and consider whether any action is required.
 - To review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements. The Committee should annually receive a report on the effectiveness of the external auditors and should obtain a report on the audit firm's own internal quality control procedures.
 - To devise and monitor compliance with a policy setting out matters that might impair the external auditors' judgement or independence in respect of the audit as outlined in paragraphs 4.21 – 4.28 of the Smith Guidance as incorporated in the Related Guidance and Good Practice Suggestions appended to the Combined Code.
 - To develop and implement policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm(s), and to report 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.

- To discuss with the external auditors before the audit commences and, as necessary, following the audit, the nature and scope of the audit (including the accounting principles, policies and practices adopted in the preparation of the Group's accounts planned levels of materiality, resourcing and the terms of the external auditors' engagement letter). In particular:
 - the Committee should ensure at the start of each annual audit cycle that appropriate plans are in place for the audit;
 - the Committee should consider whether the auditors' overall work plan, including planned levels of materiality, and proposed resources to execute the audit plan appear consistent with the scope of the audit engagement, having regard also to the seniority, expertise and experience of the audit team;
 - the Committee should review, with the external auditors, the findings of their work. In the course of its review, the Committee should: (i) discuss with the external auditors major issues that arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved; (ii) review key accounting and audit judgements; and (iii) review levels of errors identified during the audit, obtaining explanations from management and, where necessary the external auditors, as to why certain errors might remain unadjusted;
 - the Committee should also review the audit representation letters before signature by management and give particular consideration to matters where representation has been requested that relate to non-standard issues. The Committee should consider whether the information provided is complete and appropriate based on its own knowledge;
 - the Committee should review the external auditors' management letter and management's responsiveness to the external auditors' findings and recommendations and
 - the Committee should ensure co-ordination and co-operation between the external and internal auditors.
- **Roles & Responsibilities - Internal Audit**
 - To monitor and review the effectiveness of the Company's internal audit function.
 - To review the Internal Audit Charter annually.
 - To review and approve the annual internal audit plan, ensuring that material risk areas are included and that the coverage of business processes is acceptable, and review the effect of quarterly plan adjustments.

- To ensure that the internal audit function is adequately and appropriately resourced and has the appropriate authority and status within the Group, and is equipped to perform in accordance with appropriate professional standards for internal auditors.
- To review and discuss with the Director of Group Internal Audit the scope of work of the internal audit function, the issues identified as a result of its work and management's responsiveness to issues raised and agreed action plans.
- To monitor and assess the role and effectiveness of the internal audit function in the overall context of the Group's risk management system.
- To consider the appointment, resignation or dismissal of the Group Internal Audit Director.
- To ensure co-ordination and cooperation between internal audit and the risk management and compliance functions.
- **Roles & Responsibilities - Whistleblowing**
 - To review arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, with a view to ensuring that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.
 - To consider the major findings of internal investigations and management's response.
- **Roles & Responsibilities - Compliance**
 - To review the regulatory compliance processes and procedures, providing oversight over the reporting and adequacy of management actions to correct reported breaches, as well as including oversight/review and challenge reports from the Group Compliance Function regarding the completion of any Risk Mitigation Programmes agreed with the FSA. The Committee does not oversee the execution of any such Risk Mitigation Programmes.
 - The Committee will receive and review reports from Group Compliance on the effectiveness of compliance activities in the Divisions and Business Units and the effectiveness of the compliance framework.
 - To consider co-ordination between the Board Risk Committee and the Audit Committee on compliance functions.
- **Roles & Responsibilities - Internal controls**
 - Consider control issues identified from the various reports reviewed by the Committee in the context of the overall effectiveness of internal controls. This will include reports from internal audit, compliance, whistleblowing and external audit as well as specific

internal control reports from management relating to internal attestation of financial and other controls.

- To receive reports relating to management's assessment of the effectiveness of the Company's systems of internal controls, and satisfy itself whether any matters should be raised in the relevant section(s) of the annual financial statements and report on findings to the Board. This will include a review of the findings from the Chief Executive **Letter of Representation** and the formal **Internal Control Effectiveness Assessments** which are carried out at least annually.

- **Roles & Responsibilities - Governance**

- To receive reports from Chairmen of the audit committees of the major subsidiaries where issues need to be brought to the attention of the Group Audit Committee and to invite the Chairmen of such committees to attend meetings of the Committee from time to time.
- Together with external and internal audit, to review developments in corporate governance and best practice and consider their impact and implication for Group processes and structures.
- To consider the disclosure about the role of the Committee to be included in the Company's annual report.
- Annually to review and, if appropriate, update the Committee's own terms of reference, subject to Board approval for all changes.
- To review and report to the Board on the Committee's operating effectiveness and performance at least annually.
- To evaluate and monitor the regulatory governance requirements.
- To be available at all times to advise the Chairman of the Board on any questions relating to the financial affairs and internal controls (including financial and operating controls) of the Group.
- To consider other topics, as defined by the Board.

- **Authority**

- The Committee shall act independently of management. The chairperson of the Committee has direct, unfettered access to the Chairman of the Board.
- The Committee is authorised by the Board to investigate any activity within its terms of reference.

- The Committee is authorised to seek any information it requires from any employee of the Group and all employees are directed to co-operate with any request made by the Committee. Such requests will be channelled through the Group Executives.
- The Committee is authorised by the Board to obtain outside legal, accounting or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.
- The Group Internal Audit Director has a direct reporting line to the Committee and access to the Chairman on a regular basis.
- **Reporting**
 - The Committee should evaluate all of the information it receives from management, internal audit, external assurance providers, the control functions and sub Group Audit Committees; and report their conclusion on the effectiveness of internal financial controls to the Board.
 - The Committee's duties and activities during the year shall be disclosed in the Company's Annual Report and Accounts.