

# Report of the Audit Committee

**Members:** Alison Reed (Chairman), Baroness Kingsmill, Chumpol NaLamlieng, Ken Smart, Baroness Symons, Jim Lawrence (until November 1, 2007).

The Board is satisfied that Alison Reed has recent and relevant financial experience for the purposes of paragraph C.3.1 of the Combined Code. The Committee met four times during 2007/08 and has held closed meetings and has also met privately with both the external and internal auditors.

Regular attendees at Committee meetings, at the invitation of the Committee, included the Chairman, the Chief Executive, Chief Financial Officer, the Head of Internal Control, the Group Financial Controller, the Group Reporting Manager and representatives from the external auditors.

The Audit Committee is responsible for exercising the full powers and authority of the Board in accounting and financial reporting matters. The full terms of reference, which were amended following the delisting from the New York Stock Exchange, are available on the Company's website at [bashares.com](http://bashares.com).

The **key duties** of the Committee include to:

- Monitor the integrity of the Company's financial statements prior to their submission to the Board and any formal announcements relating to the Company's financial performance;
- Review the Company's financial statements to ensure that its accounting policies are the most appropriate to the Company's circumstances and that its financial reporting presents a balanced and understandable assessment of the Company's position and prospects;
- Keep under review the Company's system of internal control, including compliance with the Company's codes of conduct and the scope and results of the work of internal audit and of external audit, together with the independence and objectivity of the auditors;
- Oversee the performance, as well as the objectivity and independence, of the external auditor which it does by requiring reports from the auditor, a requirement to pre-approve fees for non-audit work and by ensuring that fees for non-audit work remain lower than those for audit work. The external auditor is only permitted to carry out work for the Group in the following categories: audit work; advice and assurance on accounting standards; tax and regulatory requirements; tax compliance, planning and advice; due diligence in relation to alliances, investments and joint ventures; and the provision of attestation reports or comfort letters confirming compliance or reasonableness as required by third parties. Managers are required to obtain prior approval before contracting such services from the external

auditor. The Audit Committee has also specified certain non-audit services which the external auditor may not supply to the Group such as bookkeeping and actuarial services; and

- Take responsibility for the oversight of the Company's policy on whistleblowers and the risk management process (see Internal Control on pages 60 and 61).

## Items reviewed during the year include:

### Financial reporting

The Committee reviewed the draft annual and interim management report before recommending their publication to the Board. The Committee discussed with the Chief Executive, Chief Financial Officer and external auditors the significant accounting policies, estimates and judgements applied in preparing these reports.

### Internal controls

The Committee has an ongoing process for reviewing the effectiveness of the system of internal controls. During 2007/08 it considered reports from the Head of Internal Control summarising the work planned and undertaken, recommending improvements and describing actions taken by management.

### Terminal 5 Readiness Programme

The Committee reviewed reports from Internal Control in relation to the Company's preparation for the move to Terminal 5.

### Internal audit

The Committee evaluated the performance of internal audit from the quality of reports and recommendations from the Head of Internal Control. An external quality assessment of internal audit was undertaken by PricewaterhouseCoopers and overall the report commended the Company's Internal Control team.

### Risk group

The Committee reviewed the reports produced by the risk management process during the year. The Committee also reviewed and approved the Company's new Insurance Governance Statement.

### Whistleblowing

The confidential helpline run by Safecall, which allows employees to raise concerns, is working well and confidence in it is continuing. The Committee receives regular reports on the confidential reporting system to ensure that the Company's whistleblowing processes work appropriately.

### Reappointment of external auditors

The Committee may make recommendations to the Board, to be put to shareholders for approval at the annual general meeting, in relation to the appointment, reappointment and removal of the Company's external auditors.

### Auditor independence

The Committee reviews the work undertaken by the external auditor and assesses annually its independence and objectivity. In doing so, it takes into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services. The Committee monitors the auditor's compliance with relevant regulatory, ethical and professional guidance on the rotation of partners, as well as assessing annually its qualifications, expertise, resources and the effectiveness of the audit process, including a report from the external auditor on its own internal quality procedures.

### Audit Committee effectiveness

The Committee prepares and reviews with the Board an annual performance evaluation of the Committee. The findings of the review ensure that the Committee is satisfied that it is operating effectively, meeting all applicable legal and regulatory requirements.

### Other issues

Details of the fees paid to the external auditor during 2007/08 can be found in note 6 to the financial statements.

The terms of reference of the Committee are reviewed at least annually and any changes are recommended to the Board. As mentioned above, they were changed during the year.