UK SHARED BUSINESS SERVICES LTD

Audit Committee Terms of Reference

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1. Constitution

1.1 The UK SBS Board ('the Board") has established a sub-committee of the Board known as the Audit Committee ("the Committee").

1.2 The terms of reference of the Committee are outlined below and are agreed by the Board and may be amended by the Board at any time.

2. Purpose of the Committee

2.1 The Audit Committee supports the Board by advising on the comprehensiveness and reliability of the Company's strategic processes relating to corporate governance, risk management and the control environment; advising on the Company's accounting policies and its accounts and annual report; advising on the Company's audit activity and audit results and advising on the Company's processes and arrangements relating to counter-fraud and whistleblowing processes.

3. Membership

3.1. The Audit Committee shall comprise a minimum of two Non-Executive Directors and at least one independent, co-opted individual appointed to the Committee by the Board on the recommendation of the Board meeting as the Remuneration and Nominations Committee and in consultation with the Chairman of the Audit Committee.

3.2. At least one member of the Audit Committee shall have recent and relevant financial experience.

3.3. Non-Executive Directors shall be appointed to the Committee for a period of two years after which they may be reappointed by the Board for up to a further two years.

3.4. The Chairman of the Board shall not be a member of the Committee.

3.5. The Board shall appoint one of the Non-Executive Directors on the Committee to the role of Committee Chairman. The Board shall conduct an annual review of the holder of the role of Chairman (if they are willing to continue in the role), resulting in either re-affirmation or the replacement of the holder.

3.6. Non-Executive Directors' named alternates cannot be nominated as members of the Committee.

3.7. The quorum necessary for the transaction of the business of the Committee shall be two members.

3.8. The Company Secretary, or their nominee, shall act as the secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

4 Role of the Committee

4.1 Financial Reporting

4.1.1 The Committee shall advise the Board and Accounting Officer on the accounting policies, the accounts and the annual report of the Company, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors.

4.1.2 The Committee shall review and challenge where appropriate:

4.1.2.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the activities of the Company;

4.1.2.2 the method used to account for significant or unusual transactions where different approaches are possible;

4.1.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

4.1.2.4 the clarity of the disclosure in the Company's financial reports and the context in which statements are made; and

4.1.2.5 all material information presented with the financial statements, including the strategic report and the annual governance statement relating to the audit and to risk management.

4.2 Internal Controls and Risk Management

The Committee shall:

4.2.1 *[1]advise the Board and Accounting Officer on the strategic processes for risk, controls and governance for inclusion within the corporate governance statement of the Company;

4.2.2 monitor the effectiveness of the internal control framework and risk management systems;

[1] * Items marked with an asterisk are Audit Committee duties specified within the UKSBS Articles of Association

4.2.3 *advise the Board and Accounting Officer on assurances relating to corporate governance requirements for the Company; and

4.2.4 review and approve the statements to be included in the annual report concerning the internal control framework and risk management, to cover all material controls including financial, operational, reporting and compliance controls.

4.3 Whistleblowing

4.3.1 *The Committee shall advise the Board on counter-fraud policies, whistleblowing processes, and arrangements for special investigations (including the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters).

4.4 Internal Audit

The Committee shall:

4.4.1 *advise the Board and Accounting Officer on the planned activity and results of internal audit;

4.4.2 review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work and approve the internal audit charter as and when required, ensuring it is appropriate for the current needs of the organisation;

4.4.3 monitor and assess the role and effectiveness of the internal audit function in the context of the Company's overall risk management system;

4.4.4 review and agree the annual internal audit plan to ensure it is aligned to the key risks of the business, and receive regular reports on work carried out;

4.4.5 *advise the Board and Accounting Officer on proposals for tendering for internal audit services;

4.4.6 approve the appointment of the internal audit service provider on an annual basis;

4.4.7 ensure internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions, and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;

4.4.8 ensure the internal auditor has direct access to the Board Chairman and to the Committee Chairman, providing independence from the executive and accountability to the committee;

4.4.9 *advise the Board and Accounting Officer on the adequacy of management responses to issues identified by audit activity; and

4.4.10 meet the head of internal audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out.

4.5 External Audit

The Committee shall:

4.5.1 *advise the Board and Accounting Officer on the planned activity and results of external audit;

4.5.2 consider and make recommendations to the Board, to be put to shareholders for approval, in relation to the appointment, re-appointment and removal of the external auditor;

4.5.3 *advise the Board and Accounting Officer on proposals for tendering for external audit services or for purchase of non-audit services from contractors who provide audit services;

4.5.4 oversee the relationship with the external auditor including:

4.5.4.1 approval of their remuneration (including fees for non-audit services, although negotiation of fees for non-audit services provided by the external auditor would be a matter for the UK SBS Executive Team, in line with the Scheme of Delegation); and

4.5.4.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit.

4.5.5 assess annually the qualifications, expertise and resources, and independence and objectivity of the external auditors taking into account relevant UK law, professional and regulatory requirements and the relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services;

4.5.6 satisfy itself that there are no relationships between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;

4.5.7 monitor the auditor's processes for maintaining independence, its compliance with relevant UK law, regulation and other professional requirements, including the guidance on the rotation of audit partner and staff;

4.5.8 seek to ensure coordination of the external audit activities with the activities of the internal audit function;

4.5.9 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 head of external audit at least once a year, without management being present, to discuss their remit and any issues arising from the audits carried out;

4.5.10 discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement letter;

4.5.11 review the findings of the audit with the external auditor;

4.5.12 review the effectiveness of the external audit process, including an assessment on the quality of the audit;

4.5.13 review the management letter and management's response to the auditor's findings and recommendations; and

4.5.14 *advise the Board and Accounting Officer on the adequacy of management responses to issues identified, including external audit's management letter.

4.6 Health and Safety

The Committee shall:

4.6.1 advise the Board on the effectiveness of the Company's Health and Safety controls, systems and procedures;

4.6.2 consider an annual Health and Safety at Work Report; and

4.6.3 advise the Board on assurances relating to Health and Safety.

4.7 Reporting Responsibilities

4.7.1 The Committee shall provide a report (or a verbal update depending on timings) to the subsequent Board meeting on the key matters discussed at each Audit Committee meeting.

4.7.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

4.7.3 The Committee shall compile a report on its activities to be included in the Company's annual report.

4.7.4 *The Committee shall periodically review its own effectiveness and report the results of that review to the Board.

4.7.5 The Committee should advise the Board on procedures for adhering to, and on potential breaches of, all applicable laws, regulations and policies which apply to the services provided (e.g. Freedom of Information Act, Data Protection Act etc.).

4.8 UKSBS Transformation Assurance

The Committee will review and advise the Board on the assurance of UKSBS Transformation, with a standing agenda item devoted to this, to cover:

4.8.1 Assuring the effective planning and delivery of transformation;

4.8.2 Reviewing the processes and effectiveness of risk management, controls and governance of transformation;

4.8.3 Ensuring transformation is appropriately covered in the annual report and accounts;

4.8.4 Ensuring that transformation activity does not compromise the Company's control environment; and

4.8.5 Advising the Board on all of the above at each meeting of the Board.

5. General Meetings

5.1 The Chairman of the Committee shall attend the General Meetings and be prepared to respond to any Shareholder questions on the Committee's activities.

6. Authority and Process

6.1 The Committee is authorised by the Board to undertake any activity within its terms of reference and in addition to:

6.1.1 seek any information it requires from any employee of the Company in order to perform its duties;

6.1.2 obtain outside legal or other professional advice on any matter within its terms of reference; and

6.1.3 call any employee to be questioned at a meeting of the Committee as and when required.

6.2 The meetings of the Committee shall be attended by the members, the Chief Executive Officer and such other managers of the Company as the Committee may at its discretion decide.

6.3 The Company's internal and external auditors shall be invited to attend each meeting of the Committee.

6.4 In the absence of the Committee Chairman, the remaining members present shall elect one of themselves to chair the meeting.

6.5 Although normally decisions are reached on a consensus, in the event of a disagreement, decisions are made by the majority, with the Chairman of the meeting

having a second casting vote in the event of a tie. A Committee member who remains opposed to a proposal after a vote can ask for his or her dissent to be noted in the minutes.

6.6 In carrying out its duties under these terms of reference, the Committee shall have due regard to any Company policy, legal requirements, relevant government policy and guidance, provisions and recommendations in the UK Corporate Governance Code, the Financial Reporting Council's Audit Committee Guidance and any associated guidance.

7. Frequency and Notice of Meetings

7.1 The Committee shall meet at least three times each year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.

7.2 Meetings of the Committee shall be convened by the secretary of the Committee at the request of any of its members or at the request of external or internal audit if they consider it necessary.

7.3 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 member of the Committee and any other persons required to attend, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

7.4 The Committee Chairman shall meet with the Chief Executive Officer and Company Secretary to discuss any relevant matters between the circulation of papers and Committee meeting.

7.5 The Head of Risk to meet the Chair of the Audit Committee prior to formal meetings of the Audit Committee.

8. Minutes of Meetings

8.1 The secretary shall minute the proceedings and decisions of all meetings, including names of those present. Draft minutes of meetings of the Committee shall be provided to the Committee Chairman within ten business days of the meeting for agreement and then circulated promptly to all members of the Committee.