

## Audit Committee Report

### Role of the Audit Committee

The primary role of the Audit Committee, which reports its findings to the Board, is to ensure the integrity of the financial reporting and audit processes and the maintenance of a sound internal control and risk management system. In pursuing these objectives, the Committee ensures that an appropriate relationship is maintained between GKN and the external auditors, considers the effectiveness of the external audit process and makes recommendations to the Board on the appointment of the external auditors. It reviews the effectiveness of the internal audit function and is responsible for approving the appointment of the head of that function. The Committee reviews the Group's systems of internal control and the processes for monitoring and evaluating the risks facing the Group.

In the performance of its duties, the Committee has independent access to the services of the internal audit function and to the external auditors, and may obtain outside professional advice as necessary. Both the Head of Internal Audit and the external auditors have direct access to the Chairman of the Committee outside formal Committee meetings.

The Committee has written terms of reference that outline its authority and responsibilities. These are considered annually by the Audit Committee and any proposed changes are referred to the Board for approval. The Committee's current terms of reference are available on GKN's website.

In order that the Board is kept fully apprised of the Committee's work, the Committee Chairman reports formally on its proceedings at the next following meeting of the Board, and minutes of meetings of the Committee are circulated to all members of the Board.

### Membership

The Audit Committee consists entirely of independent non-executive Directors and presently comprises John Sheldrick (Chairman), Helmut Mamsch, Sir Christopher Meyer and Sir Peter Williams, all of whom served on the Committee throughout 2008, together with Richard Parry-Jones who became a member of the Committee on his appointment to the Board on 1 March 2008. Their biographical details are set out on pages 50 and 51. The Company Secretary acts as secretary to the Committee.

As the Chairman of the Committee is the Group Finance Director of Johnson Matthey plc, the Board remains satisfied that at least one member of the Committee has recent and relevant financial experience as required by the Combined Code on Corporate Governance.

### Report on the Committee's activities

#### Meetings and attendance

The Committee met on four occasions in 2008 timed to coincide with the financial and reporting cycles of the Company. Members' attendance at the meetings held during the year is set out in the table on page 57.

The Group Chairman, Chief Executive, Finance Director, Head of Internal Audit, the engagement partner of PricewaterhouseCoopers LLP (PwC) and other members of the management team attended meetings by invitation. The Head of Internal Audit and PwC had the opportunity to discuss matters with the Committee without any executive management being present at two and three meetings respectively. In addition, the members of the Committee met separately at the start of each meeting to discuss matters in the absence of any persons attending by invitation.

#### Financial reporting

During 2008, the Committee reviewed a wide range of financial reporting and related matters including the half year and annual financial statements, other related annual report information, and results announcements prior to their submission to the Board. The Committee focused in particular on key accounting policies and practices adopted by the Group and any significant areas of judgement that materially impacted reported results. In its review of the 2008 financial statements the Committee also considered analysis to support the going concern judgement.

#### External auditors

The Audit Committee is responsible for the development, implementation and monitoring of the Company's policies on external audit. The policies, designed to maintain the objectivity and independence of the external auditors, regulate the appointment of former employees of the external audit firm to positions in the Group and set out the approach to be taken when using the external auditors for non-audit work; the latter policy was reviewed by the Committee during the year. As a general principle the external auditors are excluded from consultancy work and cannot be engaged by GKN for other non-audit work unless there are compelling reasons to do so. Any proposal to use the external auditors for non-audit work must be submitted to the Finance Director, via the Group Financial Controller, for approval prior to appointment. The Finance Director, who is permitted to delegate approval to the Group Financial Controller for amounts below £20,000, will, depending on the nature of the service, seek the prior authorisation of the Chairman of the Audit Committee.

In accordance with its remit, the Committee reviewed and approved PwC's plans for the audit of the Group's 2008 financial statements. In approving the terms of engagement for the audit, the Committee considered PwC's proposed audit fee. It also reviewed PwC's audit of the 2007 annual report and review of the 2008 half year report.

During the year, the Committee performed its annual review of the effectiveness of the external auditors. This process was based primarily on a format devised by the Institute of Chartered Accountants of Scotland and conducted by means of formal interviews with a number of Directors and senior management across the Group and the engagement partner of PwC. The Committee also reviewed a formal letter provided by PwC confirming their independence and objectivity within the context of applicable regulatory requirements and professional standards and received confirmation of compliance with the policies on the employment of former employees of the external auditors and the use of the external auditors for non-audit work.

## Audit Committee Report

continued

### Internal audit and monitoring of control issues

At its meetings during 2008 the Committee reviewed the results of the audits undertaken by the internal audit function and considered the adequacy of management's response to the matters raised, including the implementation of recommendations made by the function. It also reviewed and approved the internal audit plan for the coming year and the level of resources allocated to the internal audit function. The effectiveness of the internal audit function was reviewed based primarily on guidelines issued by the Institute of Internal Auditors. Feedback was obtained from a number of Directors and senior management across the Group by means of formal interview.

The Committee reviewed regular reports on control issues of Group level significance, including details of any remedial action being taken. It considered reports from the internal audit function and PwC on the Group's systems of internal control and reported to the Board on the results of its review. The Committee also received a presentation on Group IT security and control, examined reports detailing the Group's actual or anticipated material litigation, monitored compliance with the Group's policy for the appointment of agents and consultants (which is available on GKN's website), and reviewed the Directors' and Company Secretary's expenses.

### Whistleblowing

To support the Group's Employee Disclosure Procedures Policy (which is available on GKN's website), GKN operates international whistleblowing hotlines. Run by external and independent third parties, the hotlines facilitate the arrangements whereby employees can make (on an anonymous basis if preferred) confidential disclosures about suspected impropriety and wrongdoing. Any matters so reported are investigated and escalated to the Audit Committee as appropriate. Statistics on the volume and general nature of all disclosures made are reported to the Committee on an annual basis.

### Effectiveness

During the year the Committee undertook a formal review of its own effectiveness. Further details on the process can be found on page 55.

On behalf of the Committee



### John Sheldrick

Chairman of the Audit Committee

25 February 2009