

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

1 Introduction

The purpose of the audit committee is to be assured of, and report to the board on, the adequacy of the systems of managerial and financial control, risk management and corporate governance.

The audit committee shall consider and report on any matters relating to internal control systems, financial reporting arrangements and corporate governance.

2 Constitution

The board has established a sub-committee known as the audit committee.

3 Membership

The chairman and committee members shall be appointed by the board having received advice from the nominations committee. The committee shall consist of not less than four and not more than six members, one of whom shall be the chairman. A quorum shall be three members.

4 Attendance at meetings

Meetings shall be attended normally by the following officers of the trustee company:

Chief executive
Chief financial officer
Chief investment officer
Head of internal audit
Compliance officer
Chief Administrative Officer
Company secretary who shall act as secretary to the committee.

A representative(s) of the external auditors shall also attend where business relevant to them is to be discussed. The committee, however, shall meet with the external auditors, internal auditor and compliance officer without the officers present in September each year.

5 Frequency of meetings

Meetings shall normally be held in February, May, July and September each year. The external auditors may request a meeting if they consider it necessary.

6 Reporting procedures

Minutes of meetings will be issued to all committee members and attendees and submitted to the next meeting of the board. The committee will prepare an annual report for the board and to be included in the trustee company's annual report. The report will summarise the activities for the year and give the committee's opinion on

the extent to which the board can be assured of the trustee company's arrangements for ensuring managerial and financial control and good corporate governance.

7 Responsibilities

The audit committee is responsible for:

- 7.1 Overseeing the provision of the external auditor service.
- 7.2 Monitoring the trustee company's system of internal control.
- 7.3 Overseeing and ensuring the effectiveness of the internal audit function.
- 7.4 Reviewing all aspects of the annual financial statements prior to their submission to the board.
- 7.5 Monitoring the trustee company's compliance with legal and regulatory requirements.
- 7.6 Ensuring that an adequate whistleblowing arrangement is in place for employees.
- 7.7 Considering matters referred to it by other USS committees

8 Duties

The duties of the committee shall be:

8.1 External audit

- (a) To make recommendations to the board concerning the appointment, re-appointment, termination and remuneration of the external auditors.
- (b) To review the scope and planned programme of work of the external auditors.
- (c) To review the findings of the external auditors.
- (d) To review any representation letters requested by the external auditor before management signs them.
- (e) To review the management letter and management's response to the auditor's findings and recommendations.
- (f) To review the cost effectiveness of external audit.
- (g) To review the non-audit services provided by the external auditors to ensure that the provision of such services does not impair the external auditor's independence or objectivity.

8.2 Internal controls and risk management systems

- (a) To monitor and advise the finance & policy committee and the board on the effectiveness of the trustee company's system of internal control (including financial, operational, compliance, risk management and corporate governance).
- (b) To report annually to the board on its views of the effectiveness of the internal control systems.
- (c) To oversee company-wide policies on fraud and irregularities.

8.3 Internal audit

- (a) To review the effectiveness of the internal audit function, ensuring that it is adequately resourced and has appropriate standing within the organisation.
- (b) To review the scope and planned programme of internal audit.
- (c) To review the findings of internal audit.
- (d) To review the cost effectiveness of internal audit.

8.4 Financial reporting

To review all aspects of the annual financial statements prior to their submission to the management committee including:

- (a) The consistency of, and changes to, accounting policies.
- (b) Whether the trustee company has followed appropriate accounting standards.
- (c) Reviewing all material information presented in the financial statements including the corporate governance statement.

8.5 Monitoring legal and regulatory requirements

- (a) To take account of provisions of national audit regulatory and statutory bodies etc in determining policy in relation to audit matters.
- (b) To review reports from the compliance officer.
- (c) To ensure that the accounting and reporting policies are in line with legal requirements, FSA and other appropriate regulatory body requirements and best practice.

8.6 Whistleblowing

- (a) To review the trustee company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting and other matters.
- (b) To ensure that the whistleblowing arrangements allow proportionate and independent investigations of such matters and appropriate follow up action.

8.7 Other matters

- (a) To consider management's response to external or internal audit recommendations.
- (b) To consider matters referred to it by other USS committees.
- (c) To monitor the implementation of agreed audit-based recommendations.

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