

Audit Committee Report

Composition

The Audit Committee comprises the following independent non-executive Directors, biographical details of whom are set out on pages 40 and 41:

John Sheldrick (Chairman)
 Helmut Mamsch
 Sir Christopher Meyer
 Richard Parry-Jones
 Michael Turner (since his appointment to the Board on 1 September 2009)
 Sir Peter Williams

The Company Secretary acts as secretary to the Committee.

A number of Committee members have, in the Board's view, recent and relevant financial experience as required by the Combined Code on Corporate Governance. In particular, John Sheldrick was Group Finance Director of Johnson Matthey plc from 1995 until his retirement in September 2009 and has chaired GKN's Audit Committee since 2004.

Role

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. The Committee is responsible for monitoring and reviewing:

- > the integrity of the Group's financial statements and the significant reporting judgements contained in them;
- > the appropriateness of the Group's relationship with the external auditors, including auditor independence, fees and provision of non-audit services;
- > the effectiveness of the external audit process, making recommendations to the Board on the appointment of the external auditors;
- > the activities and effectiveness of the internal audit function (Corporate Audit);
- > the effectiveness of the Group's internal control and risk management systems; and

- > the Group's policies and practices concerning business conduct and ethics, including whistleblowing.

In the performance of its duties, the Committee has independent access to the services of Corporate Audit and to the external auditors, and may obtain outside professional advice as necessary. Both the Head of Corporate 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.

Comprehensive briefing papers are prepared and circulated to Committee members in advance of each meeting and made available to other Directors. 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.

Activities

Meetings and attendance

The Committee met on four occasions in 2009 timed to coincide with the financial and reporting cycles of the Company. Members' attendance at these meetings is set out in the table on page 48.

The Group Chairman, Chief Executive, Finance Director, Head of Corporate Audit, the engagement partner of PricewaterhouseCoopers LLP (PwC) and other members of senior management attended meetings by invitation. The Head of Corporate 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

The Audit Committee considered a wide range of financial reporting and related matters in respect of 2009 published results. For both the half and full year, the Committee reviewed any significant areas of judgement that materially impacted reported results, key points of disclosure and presentation to ensure the adequacy, clarity and completeness of the financial statements, and the content of results announcements prior to their submission to the Board. It also considered reports from PwC on their review of the 2009 half year report and, in respect of the full year, PwC's audit of the financial statements and other items in the 2009 annual report. Analysis to support the going concern judgement given on page 27 was also reviewed.

External auditors

Independence

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.

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.

The Committee receives annual confirmation from PwC as to their independence and objectivity within the context of applicable regulatory requirements and professional standards, as well as management confirmation of compliance with the Group's policies on the employment of former employees of the external auditors and the use of the external auditors for non-audit work.

Effectiveness and reappointment

The Committee has undertaken its annual review of the qualification, expertise, resources and independence of the external auditors and the effectiveness of the external audit process by:

- reviewing, and approving, PwC's plans for the audit of the Group's 2009 financial statements, the terms of engagement for the audit and the proposed audit fee;
- considering the views of Directors, senior management and the PwC engagement partner on PwC's independence, objectivity, integrity, audit strategy and its relationship with the Group, obtained by way of interview; and
- taking into account information provided by PwC on their independence and quality control procedures.

In making its recommendation to the Board that PwC be reappointed for a further year, the Committee took into account their tenure as auditors and considered whether there should be a full tender process. There were no contractual obligations restricting the Committee's choice of external auditors.

Details of the fees paid to PwC in 2009 can be found in note 3(a)(iv) to the financial statements.

Internal control

In 2009 the Committee reviewed the results of the audits undertaken by Corporate Audit and considered the adequacy of management's response to the matters raised, including the implementation of any recommendations made. It also reviewed and approved the 2010 Corporate Audit programme, including the proposed audit approach, coverage and allocation of resources. The effectiveness of Corporate Audit was formally reviewed, taking into account the views of Directors and senior management on matters such as independence, proficiency, resourcing, and audit strategy, planning and methodology.

The Committee reviewed regular reports on control issues of Group level significance, including details of any remedial action being taken. It considered reports from Corporate Audit and PwC on the Group's systems of internal control and reported to the Board on the results of its review. The Committee also 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.

Further information on the Group's systems of internal control and risk management is given on pages 48 and 49.

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.

Performance evaluation

During the year the Committee undertook a formal evaluation of its own performance, further details on which can be found on page 46.

On behalf of the Committee



John Sheldrick

Chairman of the Audit Committee
24 February 2010