

# Audit Committee Report

## Role of the Audit Committee

The Audit Committee is a sub-committee of the board whose responsibilities include:

- Reviewing the interim and full year accounts and results announcements of the company and any other formal announcements relating to the company's financial performance and recommending them to the board for approval;
- Reviewing the group's systems for internal financial control and risk management;
- Monitoring and reviewing the effectiveness of the company's internal audit function and considering regular reports from internal audit on internal financial controls and risk management;
- Considering the appointment of the external auditors; overseeing the process for their selection; and making recommendations to the board in relation to their appointment (to be put to shareholders for approval at a general meeting);
- Monitoring and reviewing the effectiveness and independence of the external auditors, agreeing the nature and scope of their audit, agreeing their remuneration, and considering their reports on the company's accounts, reports to shareholders and systems of internal financial control and risk management.

The full terms of reference of the Audit Committee are provided on the company's website at [www.matthey.com](http://www.matthey.com).

## Composition of the Audit Committee

The Audit Committee comprises all the independent non-executive directors. Biographical details of the independent directors are set out on pages 34 and 35. Their remuneration is set out on page 45. The Chairman of the Audit Committee is Mr A M Thomson. The group Chairman, Chief Executive, Group Finance Director, Head of Internal Audit and external auditors (KPMG Audit Plc) attend Audit Committee meetings by invitation. The Committee also meets separately with the Head of Internal Audit and with the external auditors without management being present. The Company Secretary, Mr S Farrant, is secretary to the Audit Committee.

## Main Activities of the Audit Committee

The Audit Committee met four times during the financial year ended 31st March 2005. At its meeting on 26th May 2004 the Committee reviewed the company's preliminary announcement of its results for the financial year ended 31st March 2004, and the draft report and accounts for that year. The Committee received reports from the internal auditors on control matters and the external auditors on the conduct of their audit, their review of the accounts, including accounting policies and areas of judgment, and their comments on risk management and control matters. The Committee also reviewed the group's corporate social responsibility (CSR) report which is available on the company's website at [www.matthey.com](http://www.matthey.com).

The Audit Committee met on 27th July 2004 to receive reports on internal controls from both the internal and external auditors and a paper detailing the group's treasury policies. The external auditors also presented their proposed fees and scope for the forthcoming year. The Committee also reviewed the performance of both the internal and external auditors.

At its meeting on 22nd November 2004 the Audit Committee reviewed the company's interim results, the half year report and the external auditors' review.

At its meeting on 25th January 2005 the Audit Committee reviewed management's and internal audit's reports on the effectiveness of the company's systems for internal financial control and risk management. In addition the Committee reviewed a paper on the impact of International Financial Reporting Standards on the group's accounts.

## Independence of External Auditors

Both the board and the external auditors have for many years had safeguards in place to avoid the possibility that the auditors' objectivity and independence could be compromised. Our policy in respect of services provided by the external auditors is as follows:

- Audit related services – the external auditors are invited to provide services which, in their position as auditors, they must or are best placed to undertake. It includes formalities relating to borrowings, shareholders' and other circulars, various other regulatory reports and work in respect of acquisitions and disposals.
- Tax consulting – in cases where they are best suited, we use the external auditors. All other significant tax consulting work is put out to tender.
- General consulting – in recognition of public concern over the effect of consulting services on auditors' independence, our policy is that the external auditors are not invited to tender for general consulting work.

## Internal Audit

During the year the Audit Committee reviewed the performance of the internal audit function, the findings of the audits completed during the year, the department's resource requirements and also approved the internal audit plan for the year ending 31st March 2006.

On behalf of the Committee:



**A M Thomson**  
Chairman of the Audit Committee