

7. Audit Committee report

7.1 Composition of the Audit Committee

The Audit Committee presently comprises three independent Non-Executive Directors. At the present time, its members are Russell Walls (Chairman), Janet Morgan and Iain Duffin. Russell Walls is a former Finance Director of a FTSE 100 company. The Committee therefore has significant recent and relevant financial expertise and is appropriately qualified to undertake its duties in an effective manner. Ewan Brown resigned from the Committee on 2 December 2005.

7.2 Operation of the Audit Committee

The Audit Committee met four times during the year and has met a further time in June 2006. It receives reports from major business functions including the Risk Assurance Function (internal audit), which is outsourced and managed by Deloitte. It also receives reports from the external auditors. It considers the scope and results of the audit, the interim and annual financial statements and the accounting and internal control systems in place throughout the Group. The Audit Committee reviews the cost effectiveness, independence and objectivity of the internal and external auditors.

The terms of reference of the Audit Committee are available on the Group's website at <http://www.stagecoachgroup.com/scg/csr/corpgov/committees/audit.pdf>

7.3 Review of External Auditors

The Audit Committee has the delegated responsibility for making recommendations on the appointment, reappointment, removal and remuneration of the external auditors. There have been no instances of disagreements between the Board and the Audit Committee relating to the external auditors.

Subject to the annual appointment of auditors by the shareholders, the Audit Committee conducts a continuous review of the relationship between the Group and the auditors. This review includes:

- the consideration of audit fees that should be paid and advance approval of any other fees in excess of £50,000 cumulative which are payable to auditors or affiliated firms in respect of non-audit activities;
- the consideration of the auditors' independence and objectivity;
- the nature and scope of the external audit and the arrangements which have been made to ensure co-ordination where more than one audit firm or offices of the same firm are involved; and
- discussions on such issues as compliance with accounting standards.

The Committee formally assesses the effectiveness of the external audit process on an annual basis.

The Audit Committee, having considered the external auditors' performance during their period in office, recommends re-appointment. The audit fees of £0.7m for PricewaterhouseCoopers LLP and non-audit related fees of £0.1m were discussed by the Audit Committee and considered appropriate given the current size of the Group and the level of corporate activity undertaken during the year. The Committee believes the level and scope of non-audit services does not impair the objectivity of the auditors and that there is a clear benefit obtained from using professional advisors who have a good understanding of the Group's operations. Other accounting or consulting firms have been used where the Group recognises them as having particular areas of expertise or where potential conflicts of interest for the auditors are identified.

7.4 Policy on the Auditors Providing Non-Audit Services

Procedures in respect of other services provided by the auditors are :

- Audit related services - These are services that the auditors must undertake or are best placed to undertake by virtue of their role as auditors. Such services include formalities relating to bank financing, regulatory reports, and certain shareholder circulars. The auditors would generally provide all such services, subject to approval by the Audit Committee.
- Tax consulting - It is the Group's policy to select the advisor for each specific piece of tax consulting work who has the most appropriate skills and experience for the work required. The Group uses a range of advisors for tax consulting, including the auditors where they are best suited to the work being undertaken, subject to approval by the Audit Committee.
- General consulting - For other consulting work, the Group will select an advisor after taking account of the skills and experience required and the expected cost of the work. The Group uses a range of advisors for general consulting, including the auditors where they are best suited to the work being undertaken. The auditors are only permitted to provide general consulting when the Group, the Audit Committee and the auditors are satisfied that there are no circumstances that would lead to a threat to the audit team's independence or a conflict of interest.

7.5 Review of Risk Assurance Function

The Audit Committee has the delegated responsibility for making recommendations on the appointment, reappointment, removal and remuneration of the Group Risk Assurance Function (internal auditors). There have been no instances of disagreements between the Board and the Audit Committee relating to the Risk Assurance Function.

The Audit Committee conducts a continuous review of the relationship between the Group and the Risk Assurance Function. This review includes a consideration of independence and objectivity, the overall level of fees, the quality of the risk assurance process, and the role of the function in the context of the broader sources of risk assurance.

The Committee formally assesses the effectiveness of the risk assurance function on an annual basis.

7.6 "Speaking Up" Policy

The Audit Committee reviews the Group's "Speaking Up" policy, which provides a mechanism for employees with serious concerns about the interests of others or the Group to come forward. The Committee ensures that appropriate arrangements are in place to receive and act proportionately upon a complaint about malpractice. The Committee takes a particular interest in any reports of possible improprieties in financial reporting.



Russell Walls
Chairman of the Audit Committee

28 June 2006