

Audit, Risk & Compliance Committee (ARCC)

References within this document to “the Committee” means the ARCC and “Board” means Main Board.

1 Membership

- (1) The Committee shall be appointed by the Board after the Annual Movable Conference (AMC).
- (2) The Committee shall appoint its own Chairman and Vice Chairman. In the absence of the Committee Chairman, the Vice Chairman will chair the meeting.
- (3) The Committee shall be made up of at least five persons, which may include Non-Executive Directors who are members of the Society or persons with relevant Financial, Audit, Risk and Compliance experience (subject to acceptance by the ¹PRA & FCA as a Regulated Person). Neither the Chairman of the Board nor the CEO shall be a member of the Committee but both are able to attend meetings in an ex officio capacity and have no voting rights.
- (4) No person may serve on the Committee for more than nine years.
- (5) Only members of the Committee have the right to attend Committee meetings. However, other individuals may be invited to attend all or part of any meeting as and when appropriate.

2 Secretary

- (1) The designated Clerk to the Committee or their nominee shall act as the Secretary of the Committee.

3 Quorum

- (1) The meeting is deemed to be quorate providing at least four members are present, two of whom must be Member Elected Directors. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

4 Frequency of Meetings

- (1) The Committee shall meet not less frequently than four times a year, on dates to be agreed by the Committee.
- (2) Subject to prior notice given in accordance with 5 below, a meeting may be convened for a date other than a scheduled date, at the request in writing of any member of the Committee, the Internal or External Auditors or the Actuary.

¹ PRA Senior Insurance Managers Function (SIMF), FCA Controlled Function (CF) and/or PRA/FCA Notified NED

5 Notice of Meetings and Committee papers

- (1) Meetings of the Committee shall be summoned by the Clerk to the Committee issuing written notice not less than five business days before the scheduled date of the meeting or, if summoned in accordance with 4.2 above, not less than three business days before the date of the meeting.
- (2) Notice of each meeting shall be issued to each member of the Committee and each other person invited to attend, stating the venue, time and date together with an agenda of items to be discussed.
- (3) Notice of a meeting of the Committee may be issued by hand, surface mail or by electronic means.
- (4) Notice of a meeting shall be accompanied by reporting papers and such other supporting papers as are appropriate and necessary for the Committee to conduct the business for which it has been convened.
- (5) The Committee may consider papers issued later than as set out in 5.4 above or tabled at a meeting, if the Chairman has given consent.

6 Report of Meetings

- (1) The Clerk to the Committee shall report the proceedings, agreed actions and resolutions of all meetings of the Committee, including recording the names of those in attendance.
- (2) Members of the Committee shall declare the existence of any material conflicts of interest prior to discussions on the subject matter and the Clerk to the Committee will record the conflict of interest in the minutes. If the conflict of interest is material, the Committee member may be asked to leave the meeting for that particular subject matter. For any conflicts of interest other than material ones, the Committee member may remain in the meeting for that particular subject matter and take part in the discussions and decision.
- (3) The Report of each meeting of the Committee shall be circulated promptly to all members of the Committee. Once approved by the Chairman, the Clerk to the Committee will circulate the approved Report to the Board, the members of the Committee, together with any person who attended the meeting and each person responsible for agreed actions recorded in the reports.

7 Annual at Annual Movable Conference (AMC)

- (1) The Chairman of the Committee shall attend the AMC of the Society, prepared to report on and to respond to any members questions relating to the activities of the Committee.

8 Duties

On behalf of the Board, the Committee shall carry out the following:

8.1 Risk Management Framework (RMF) and Internal Controls

- (1) Reviewing management's identification of all significant risks of the Society in accordance with the RMF and all associated policies, but with specific oversight responsibility of the following RMF policies:
 - Internal Control Policy;
 - Internal Audit Policy; and
 - Outsourcing Policy.
- (2) Reviewing and oversight of risk appetite statements that fall within the Committee's responsibility;

- (3) Ensuring there are risk management processes in place to measure, monitor, manage and mitigate significant risk exposures, including appropriate policies, procedures and controls;
- (4) The Chairman of the Committee will hold the role of the Society's Risk Champion with oversight responsibility for promoting and building a risk awareness culture within the Society;
- (5) Overseeing of the Society's processes with regards to the production of the Own Risk Solvency Assessment (ORSA);
- (6) Overseeing of the Society's processes with regards to the production of the Society's Solvency Financial Conditions Report (SFCR);
- (7) Keeping under review the effectiveness of the Society's internal control framework;
- (8) Reviewing and approving the statement to be included in the Annual Report concerning the internal controls and risk management; and
- (9) Whistleblowing – Review the Society's arrangements for its personnel to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

8.2 Compliance & Prevention of Financial Crime

- (1) Considering and approving the remit of the Compliance & Risk Function and determine the validation of its resources;
- (2) Reviewing and approve the Compliance & Risk strategic and operational plans;
- (3) Receiving reports on compliance and risk issues and assessing the effectiveness of the compliance and risk environment. The reports shall be sufficient to inform the Committee of the systems and processes by which regulatory compliance and risk issues are identified and managed and to identify the owners of issues, the priority attached to them and the measures in place to address them;
- (4) Receiving reports on prevention, detection and investigation of fraudulent activity, financial crime or misconduct within the Society; and
- (5) Reviewing the Society's compliance with FCA/PRA principles, rules, guidance and other regulatory requirements.

8.3 Financial Reporting

- (1) The Committee shall monitor the integrity of the Financial Statements of the Society; and
- (2) The Committee shall review and challenge where necessary:
 - the consistency of, and any changes to, accounting policies both on a year on year basis and across the Society;
 - the methods used to account for significant or unusual transactions where different approaches are possible;
 - whether the Society has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the External Auditor;
 - the clarity of disclosure in the Society's financial reports and the context in which statements are made; and
 - all material information presented with the Financial Statements, such as the operating and financial review and the corporate governance statements (insofar as it relates to Audit, Risk & Compliance).

8.4 Internal Audit

- (1) Monitoring and reviewing the effectiveness of the Society's Internal Audit Function in the context of the Society's overall Risk Management System and Internal Audit Policy;
- (2) Approving the appointment/reappointment and removal of the Head of the Internal Audit function;
- (3) Considering and approving the remit of the Internal Audit function and validate the adequacy of its resources and have appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards;
- (4) Ensuring that the Function has adequate standing and is free from management or other restrictions;
- (5) Reviewing and assessing the Annual Internal Audit plan to ensure it is risk based;
- (6) Reviewing and monitoring management's responsiveness to the findings and recommendations of the Internal Auditor, and
- (7) The Committee will meet the Head of Internal Audit Function at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out.
- (8) In addition, the Head of Internal Audit shall be given the right of direct access to the Chairman of the Board and to the Chairman of the Committee.

8.5 External Audit

- (1) Considering and making recommendations to the Board, to be put to members for approval at the AMC, in relation to the appointment, re-appointment and removal of the Society's External Auditor. The Committee shall oversee the selection process for new auditors and if an Auditor resigns, the Committee shall investigate the issues leading to this and decided whether any action is required.
- (2) Overseeing the relationship with the External Auditor including (but not limited to):
 - (a) approval of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
 - (b) approval of their terms of engagements, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (c) assessing annually their independence and objectivity taking into account relevant (UK) professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
 - (d) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the Auditor and the Society (other than in the ordinary course of business);
 - (e) monitoring the Auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Society compared to the overall fee income of the firm, office and partner and other related requirements; and
 - (f) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the External Auditor on their own internal audit procedure.
- (3) The Committee shall meet the External Auditor:
 - (a) at the planning stage before the audit and once after the audit at the reporting stage; and
 - (b) at least once a year, without management being present, to discuss their remit and any issues arising from the audit.

- (4) Reviewing and approving the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- (5) Reviewing the findings of the audit with the External Auditor. This shall include but not limited to:
 - (a) a discussion of any major issues which arose during the audit;
 - (b) any accounting and audit judgements; and
 - (c) levels of errors identified during the audit.

The Committee shall also review the effectiveness of the audit

- (6) Reviewing any representation letter(s) provided by the External Auditor before they are signed by Management;
- (7) Reviewing the Management Letter and Management's response to the Auditor's findings and recommendations; and
- (8) The supply of non-audit services by the External Auditor, taking into account any relevant ethical guidance on the matter.

8.6 Reporting Responsibilities

- (1) The Committee shall make whatever recommendations to the Board, and/or relevant Committee it deems appropriate on any area within its remit where action or improvement is needed;
- (2) The Committee Chairman shall make a written or verbal report to Members of the Society at the AMC on the activities of the Committee;
- (3) The Chairman of the Committee shall provide risk reports following each Committee meeting to the Board, no less frequently than four times a year;
- (4) The Committee shall provide annual assurance report to the Board with regards the effectiveness of the Society's RMF. This will include a review of the RMF, key risks identified, the impact on the Society and actions taken to minimise these risks;
- (5) The Chairman of the Committee shall provide an annual assurance report to the Board with regards the effectiveness of the Society's ORSA process;
- (6) The Chairman of the Committee shall provide an annual assurance report to the Board with regards the effectiveness of the Society's SFCR process;
- (7) The Compliance & Risk Officer shall make written or verbal reports on any material weakness or significant issues identified, insofar as they relate to regulatory compliance and Risk Management systems & controls;
- (8) The Internal Audit Function will provide an annual Risk Based Audit Plan and written report(s) will be produced based on the findings of the work identified in the Internal Audit Plan. The report(s) will detail the findings and recommendations of the work. The report(s) will also detail whether the Internal Audit has been completed in line with the Internal Audit Plan and any deviations from the Plan will be explained; and
- (9) The Internal Audit Function will maintain a register of findings and provide updates to the Committee at each meeting.

8.7 Other Matters

The Committee shall:

- (1) have access to sufficient resources in order to carry out its duties, including access to the Chief Executive for assistance as required;
- (2) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;

- (3) be provided with timely relevant and accurate information and reports as set out in these Terms of Reference;
- (4) give due consideration to laws, regulatory principles, rules and guidance of the PRA & FCA, and the provisions of the Association of Financial Mutuals (AFM) Annotated Corporate Governance Code (ACGC) as appropriate;
- (5) be responsible for co-ordination of the Internal and External Auditors;
- (6) oversee any investigation of activities within these Terms of Reference and, act as a board of the last resort for decision, judgement, direction and control; and
- (7) at least once a year, review its own performance, constitution and Terms of Reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

9 Authority

The Committee is authorised:

- (1) to carry out its duties and investigate any matter within these Terms of Reference;
- (2) to seek any information it requires from any personnel of the Society in order to perform its duties;
- (3) to obtain, at the Society's expense' outside legal or other professional advice on any matter within its Terms of Reference and within the agreed budgetary control procedure; and
- (4) to call any employee to be questioned at a meeting of the Committee as and when required.