

# FAMILY ASSURANCE FRIENDLY SOCIETY LIMITED

## THE AUDIT SUB-COMMITTEE

### TERMS OF REFERENCE

(as adopted by the Society's Board of Directors on 15/11/2018)

#### **1 Membership**

- 1.1 Membership of the Audit Sub-Committee ("the **Committee**") will be appointed by the Board of Directors of the Society ("the **Board**") on the recommendation of the Nominations Sub-Committee in consultation with the Committee Chairman. The Committee will be made up of at least 3 members.
- 1.2 All the members of the Committee will be independent non-executive directors of the Society. The Chairman of the Board will not be a member of the Committee.
- 1.3 At least one member of the Committee will have recent and relevant experience and competency in accounting and/or auditing and will, preferably, hold a professional qualification from one of the professional accountancy bodies. The members of the Committee, as a whole, will have relevant financial experience and competency in respect of the sectors in which the Society operates.
- 1.4 Only members of the Committee have the right to attend Committee meetings. However, other directors and other individuals (including representatives of external advisers) may be invited to attend for all or part of any meeting, as and when appropriate in the opinion of the Chairman or the majority of its members.
- 1.5 The Board will appoint the Chairman.
- 1.6 In the absence of the Chairman and/or an appointed deputy, the remaining members present will elect one of themselves to chair the meeting.
- 1.7 The chairman of the meeting will be entitled to a casting vote in addition to any other vote he/she may have.
- 1.8 The external auditor will be invited to attend meetings of the Committee on a regular basis.

#### **2 Secretary**

The Secretary of the Society, or any other person selected for the task by the Committee, will act as the Secretary of the Committee.

#### **3 Quorum**

The quorum necessary for the transaction of business will be 2 members. A duly convened meeting of the Committee at which a quorum is present will be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

#### **4 Frequency of meetings**

- 4.1 The Committee will meet at least 3 times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 4.2 Outside of the formal meeting programme, the Chairman will maintain a dialogue with key individuals involved in the Society's governance, including the Chairman of the Board, the Chairmen of other Sub-Committees of the Board, the Chief Executive Officer, the Chief Finance Officer, the external audit lead partner and the Head of Internal Audit.

#### **5 Notice of meetings**

- 5.1 Meetings of the Committee will be convened by the Secretary of the Committee at the request of any of its members or at the request of the external audit lead partner or the Head of Internal Audit if such person considers it necessary.
- 5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, will be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than 5 working days before the date of the meeting.
- 5.3 The Secretary will ensure that each member of the Committee (and any other attendee as appropriate) receives information and papers in a timely manner to enable proper consideration to be given to issues.

#### **6 Minutes of meetings**

- 6.1 The Secretary will minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2 Draft minutes of the Committee meetings will be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board, other than where, in the opinion of the Chairman, it would be inappropriate to do so.

#### **7 Annual General Meeting**

The Chairman should attend the Society's Annual General Meeting to answer member questions on the Committee's activities.

#### **8 Duties**

The Committee will assist the Board in fulfilling its financial oversight responsibilities across the Group and should carry out the duties detailed below for the Society, major subsidiary undertakings and the Group as a whole, as appropriate.

##### **8.1 Financial reporting**

- (a) The Committee will monitor the integrity of the financial statements of the Group, including its annual reports and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant

financial reporting issues and judgements which they contain, having regard to matters communicated to it by the external auditor; or approve such statements if so authorised by the Board.

- (b) The Committee will review and challenge where necessary:
  - (i) the consistency of, and any changes to, significant accounting policies both on a year on year basis and across the Society and its subsidiaries;
  - (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (iii) whether the Group has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - (iv) the directors' assessment and statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period covered by that assessment;
  - (v) the directors' assessment and statement as to whether they consider it appropriate to adopt the going concern basis of accounting in preparing financial statements and the identification of material uncertainties to the Group's ability to continue to do so;
  - (vi) the clarity and completeness of disclosure in the Group's financial reports and the context in which statements are made; and
  - (vii) all material information presented with the financial statements, such as the strategic report and the corporate governance statement (insofar as it relates to risk and audit).
- (c) The Committee will also review:
  - (i) the integrity of the annual regulatory return, including the Solvency Financial Condition Report ("SFCR") and the Report to Supervisors ("RSR"), prior to submission to the Board or approve such return if authorised by the Board to do so;
  - (ii) the assumptions and outcomes of stress, scenario and reverse stress testing;
  - (iii) progress of implementation of Solvency II requirements including quantitative reporting templates ("QRTs"); and
  - (iv) the annual Statement of Compliance with the Principles of the UK Corporate Governance Code and approve such statement if authorised by the Board to do so.
- (d) The Committee will monitor adherence to the asset and liability matching

policy.

- (e) The Committee will review and approve the actuarial and embedded value ("EV") calculations (including the methodology and assumptions).
- (f) The Committee will report its views to the Board if it is not satisfied with any aspect of the proposed financial reporting by the Group.
- (g) The Committee will if requested by the Board, review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for members of the Society and its subsidiaries to assess the Group's position and performance, business model and strategy.

## 8.2 Internal controls and risk management systems

The Committee will:

- (a) monitor on an ongoing basis the Group's internal financial controls and internal control and risk management systems and, at least annually, carry out a review of the scope, adequacy and effectiveness of those systems;
- (b) receive reports from the Society's management, the Risk Sub-Committee and the external and internal auditor on the effectiveness and integrity of those systems;
- (c) review whether the principles of any guidance published by the Financial Reporting Council for directors on risk management, internal control and related financial and business reporting are being embedded within the Group where applicable; and
- (d) review the timeliness of, and reports on, the effectiveness of corrective action taken by the Group's management;
- (e) review and approve the statements to be included in the annual report concerning internal controls and risk management, prior to consideration by the Board;
- (f) provide input on significant control weaknesses to the Remuneration Sub-Committee's reviews of targets and performance objectives for executive remuneration, as requested by the Remuneration Sub-Committee.

## 8.3 Internal Audit

The Committee will:

- (a) approve the appointment or termination of appointment of the Head of Internal Audit including performance evaluation and remuneration;
- (b) review and approve the remit of the internal audit function and ensure it has the necessary resources and access to information to enable it to fulfil its mandate,

and is equipped to perform in accordance with appropriate professional standards for internal auditors. The Committee will also ensure the function has adequate standing, is free from management or other restrictions and is accountable to the Committee;

- (c) ensure the internal auditor has direct access to the Chairman of the Board and to the Chairman;
- (d) review and assess the annual internal audit plan;
- (e) consider and approve the internal audit charter;
- (f) receive a report on the results of the internal auditor's work on a periodic basis;
- (g) review and monitor management's responsiveness to the findings and recommendations of the internal auditor;
- (h) meet with the Head of Internal Audit at least once a year, without management being present; and
- (i) monitor and review the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system

#### 8.4 External Audit

The Committee will:

- (a) consider and make recommendations to the Board, to be put to members of the Society for approval at the annual general meeting, in relation to the appointment, re-appointment and removal of the Group's external auditor. The Committee will oversee the selection process for a new auditor and, if an auditor resigns, the Committee will investigate the issues leading to this and decide whether any action is required;
- (b) ensure that at least once every 10 years the external audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms, and in respect of such tender oversee the selection process and ensure that all tendering firms have the necessary access to information and individuals throughout the tendering process;
- (c) oversee the relationship with the external auditor including (but not limited to):
  - (i) recommendations on the external auditor's remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - (ii) approval of the external auditor's terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

- (iii) assessing annually the external auditor's 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;
  - (iv) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Society (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
  - (v) agreeing with the Board a policy on the employment of former employees of the external auditor and monitoring the implementation of this policy;
  - (vi) monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Group compared to the overall fee income of the firm, office and partner and other related requirements;
  - (vii) assessing annually the external auditor's qualifications, expertise and resources and the effectiveness of the audit process, which will include a report from the external auditor on their own internal quality procedures;
  - (viii) seeking to ensure co-ordination with the activities of the internal audit function; and
  - (ix) evaluating the risks to the quality and effectiveness of the financial reporting process and considering the risk of the withdrawal of the Society's present auditor from the market in that evaluation;
- (d) meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once without management being present, to discuss the external auditor's remit and any issues arising from the audit;
- (e) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- (f) review the findings of the audit with the external auditor. This will include but not be limited to:
- (i) a discussion of any major issues which arose during the audit;
  - (ii) key accounting and audit judgements;
  - (iii) levels of errors identified during the audit; and

- (iv) the effectiveness of the audit process;
- (g) review any representation letter(s) requested by the external auditor before they are signed by management;
- (h) review the management letter and management's response to the auditor's findings and recommendations;
- (i) report to the Board on the outcome of the audit, including an explanation of how the audit contributes to the integrity of the Group's financial reporting and the role of the Committee in the external audit process; and
- (j) develop and implement a policy on the supply of non-audit services by the external auditor to avoid any threat to auditor independence and objectivity, taking into account any relevant ethical guidance on the matter.

#### **8.5 Compliance monitoring**

The Committee will:

- (a) review and approve the annual Compliance Monitoring Plan and resource; and
- (b) review the Compliance reports summarising the 'high' and 'medium' rated issues.

#### **8.6 Client Assets (CASS)**

The Committee will:

- (a) at least annually review and challenge the CASS Risk Framework;
- (b) review, challenge and approve the Group CASS policy including the Prudent Segregation policies for each CASS subsidiary;
- (c) review quarterly CF10a reports and CASS MI packs; and
- (d) review external audit's annual opinion letters to the FCA regarding each CASS subsidiary.

#### **8.7 Remuneration**

The Committee will review the accounting and actuarial processes, assumptions and methodologies that impact the Executive reward measures selected by the Remuneration Sub-Committee and advise the Remuneration Sub-Committee accordingly on the soundness of the quantifications and any key considerations arising.

#### **8.8 Whistleblowing**

The Committee will oversee the integrity, independence and effectiveness of the Group's policies and procedures on whistleblowing including those policies and procedures intended to protect whistleblowers from being victimised because they have disclosed reportable concerns.

## **9 Reporting responsibilities**

- 9.1 The Chairman will report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities, including how it has discharged its responsibilities.
- 9.2 The Committee will make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3 The Committee will produce a report to be included in the Society's annual report and accounts, describing the Committee's work and how it has discharged its responsibilities.

## **10 Other**

- 10.1 The Committee will:
  - (a) have access to sufficient resources in order to carry out its duties, including access to the Secretariat for assistance as required;
  - (b) 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;
  - (c) give due consideration to applicable laws and regulations, the Society's Rules, the provisions of the UK Corporate Governance Code (as annotated for Mutual Insurers) and the requirements of the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") Handbooks and any other applicable rules, as appropriate;
  - (d) oversee any investigation of activities which are within its terms of reference;
  - (e) arrange for periodic reviews of its own performance and, at least annually, review its 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; and
  - (f) work and liaise as necessary with all other Board Sub-Committees.

## **11 Authority**

- 11.1 The Committee is authorised to:
  - (a) seek any information it requires from any employee of the Society in order to perform its duties;
  - (b) obtain, at the Society's expense, independent legal, accounting or other professional advice on any matter it believes is necessary to do so;

- (c) call any employee to be questioned at a meeting of the Committee as and when required;
- (d) have the right to publish in the Group's annual report details of any issues that cannot be resolved between it and the Board;
- (e) review and approve policies on behalf of the Board, as delegated to it by the Board from time to time; and
- (f) delegate any of its duties as it is appropriate to such person or persons as it thinks fit.