

# The Original Holloway Friendly Society Limited

## TERMS OF REFERENCE

### Audit & Risk Committee

#### 1. Membership & Attendance

The Committee comprises at least three Non-Executive Directors. Committee Members are appointed by the Board.

Only Committee Members have the right to attend Committee meetings. At the Chair's discretion, the Chief Executive, Chief Financial Officer, Chief Risk Officer, Financial Controller, Compliance Officer and Head of Internal Audit may be invited to attend for all or part of any meeting, as and when appropriate.

The Committee will routinely meet with only Committee Members present, in private.

The external auditors, internal auditors and Chief Actuary will be invited to attend scheduled meetings of the Committee. They, together with the CFO and Head of Compliance and Internal Audit, will regularly be invited to private meetings with the Committee.

The Board will review the membership of Committees annually.

The Board will nominate the Chair of the Committee, who will then be subject to regulatory approval. The Chair should be an independent Non-Executive Director, authorised to serve in this capacity by the regulator. In the absence of the Chair, those Committee Members present may elect one of their number to chair a meeting.

Any Director may attend all or part of a meeting of the Committee, subject to the Chair's agreement.

## 2. Secretary

The Company Secretary or her/his delegate will act as the Committee's Secretary, unless the Committee prefers to record all or part of its meeting in private.

## 3. Quorum

The quorum for the transaction of business is two Committee Members, both of whom must be independent. A duly convened meeting of the Committee at which a quorum is present is competent to exercise all authorities, powers and discretions vested in or exercisable by the Committee.

## 4. Frequency of Meetings

The Committee is expected to meet at least quarterly and additionally as the Chair deems necessary.

Outside of the formal meetings, the Chair, and to a lesser extent, other Committee members, will maintain a dialogue with individuals involved in the Society's governance, including the Board Chair, the Chief Executive, the Chief Finance Officer, the external audit partner, the Chief Actuary and the Head of Internal Audit.

## 5. Notice of Meetings

Committee meetings will be called by the Secretary at the request of the Chair.

Unless otherwise agreed, notice of each meeting confirming the venue, time and date, and agenda will be forwarded to each Committee Member and any other person required to attend no later than 7 working days before the date of the meeting. Supporting papers will be circulated at an appropriate time.

## 6. Minutes of Meetings

The Secretary will minute the proceedings and resolutions of all meetings, including the names of those present and in attendance.

The Chair will call for any new conflicts of interest to be declared at the beginning of each meeting, and an appropriate minute will be taken.

Draft minutes will be agreed with the Chair, then ordinarily circulated to all Directors. Appropriate minutes will be circulated to attendees where necessary. The accuracy and completeness of previous minutes will be considered at the start of the next scheduled meeting.

## 7. Annual General Meeting

The Chair will expect to attend the Annual General Meeting, prepared to respond to any questions from the Society's membership on the Committee's activities.

## 8. Duties & Responsibilities

### *General Duties & Responsibilities*

#### 8.1 Overview

The principal duty of the Committee is to report, and where appropriate make recommendations, to the Board on any matter within these terms of reference.

The principal responsibility of the Committee is to provide assurance to the Society's Board that there is/are:

- effective financial and investment reporting.
- effective internal financial controls.
- appropriate conduct management.
- an effective internal audit function.
- an effective external auditor.
- an appropriate risk management system.
- an effective actuarial function.
- an effective compliance function.
- effective arrangements in place to enable whistleblowing.

Responsibilities include making recommendations to the Board regarding the appointment, reappointment and removal of:

- external auditors.
- internal auditors.
- the Chief Actuary and With-Profit Actuary.

and advising the Board on:

- the Society's overall risk appetite/tolerance and risk strategy.

In the course of its work, the Committee will monitor:

- the integrity of the Financial Statements.
- the effectiveness of
  - the internal audit function.
  - the external audit function.
  - the actuarial function.
  - the compliance function.
  - the risk management function, including the risk management system.
  - current risk exposures.

As required, the Committee, primarily through its Chair, will facilitate communication between the Board and external governance advisors (auditors and actuaries) as deemed necessary to provide appropriate continuing assurance.

## *Specific Duties & Responsibilities*

### 8.2 Financial Reporting

The Audit & Risk Committee is responsible for:

#### *Regularly throughout the year*

- Considering the performance of the business.
- Considering changes to plans.
- Monitoring the integrity of the financial statements.
- Reporting to the Board on significant financial reporting issues and judgements that the reporting contains, having regard to matters communicated by the external auditors.

#### *At least annually*

- Considering draft business plans and budgets, discussing and challenging appropriately and recommending to the Board.
- Considering the appropriateness and adequacy of the financial information presented to the Board.
- Considering proposed changes to accounting policies and practices.
- Considering the draft report and accounts, including remuneration statement and corporate governance statement, reviewing and challenging:
  - the application of significant accounting policies and changes to them.
  - whether appropriate estimates and judgements have been made, given the external auditor's views on the financial statements.
  - all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the financial statements.

#### *Recommending to the Board*

- The annual report and accounts.
- Significant changes to accounting policies and practices.

Where the Committee is not satisfied with any aspect of the Society's proposed financial reporting, it shall report its views to the Board.

Where requested by the Board, the Committee will 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 the Membership to assess the Society's performance, business model and strategy and whether it informs the Board's statement in the annual report on these matters that is required under the appropriate corporate governance Code.

### 8.3 Internal Audit

The Audit & Risk Committee is responsible for:

#### *Regularly throughout the year*

- Monitoring performance against the agreed internal audit plan
- Agreeing changes to the agreed internal audit plan
- Receiving and considering each internal audit report.
- Reviewing and monitoring management's response to items raised in internal audit reports.
- Reporting issues to the Board.

#### *At least annually*

- Approving the appointment of the Head of Internal Audit.
- Agreeing the annual internal audit plan and budget, ensuring that it is aligned with the major risks of the business.
- Reviewing the work, performance and cost effectiveness of the internal auditor.
- Reviewing the independence and objectivity of the internal auditor.
- Receiving and considering the annual internal audit report.
- Reviewing and approving the role and mandate of internal audit, the effectiveness of the work of internal audit, and the approval of the internal audit charter to ensure that it is appropriate for the Society's current needs.
- Ensuring that internal audit
  - has unrestricted scope.
  - has the necessary resources and information access to enable it to fulfil its mandate.
  - has open communication between it and each different function within the Society
  - evaluates these functions as part of its audit plan.
  - is equipped to perform in accordance with appropriate professional standards.
  - has direct access to the Board Chair and the Committee Chair.
- Carrying out an annual assessment of the effectiveness of the internal audit function, including:

- meeting the Head of Internal Audit without management present to discuss the effectiveness of the function.
- reviewing and assessing the internal audit plan.
- receiving a report on the results of the internal auditor's work.
- determining whether it is satisfied that the quality, experience and expertise of internal audit is appropriate.
- reviewing the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function.

*As required*

- Considering the resignation or retirement of the Head of Internal Audit.

*Recommending to the Board*

- Annually, the appointment of an internal auditor.
- The Internal Audit Plan and changes to it.

#### 8.4 External Audit

The Audit & Risk Committee is responsible for:

*Regularly throughout the year*

- Reviewing ad-hoc input from the external auditor.
- Receiving and considering the interim management letter.
- Overseeing the relationship with the external auditor.

*At least annually*

- Reviewing the representation letter requested by the external auditor, prior to its signing.
- Reviewing the management letter and management's response to the auditor's findings and recommendations.
- Considering the audit opinion.
- Receiving and considering the annual audit report and management's response.
- Reviewing the work, performance and cost effectiveness of the external auditor.
- Reviewing the independence and objectivity of the external auditor.
- Reviewing the work and cost effectiveness of any non-audit services carried out in the year.
- Reporting issues to the Board.

- Approving the remuneration of the external auditor.
- Approving the terms and scope of engagement, including the engagement letter issued at the start of each audit.
- Meeting with the external auditor without management present.

*As required*

- developing and overseeing the selection process for the appointment of a new audit firm.
- on resignation of an external auditor, investigating the issues leading to the resignation and deciding whether any action is required.

*Recommending to the Board*

- The proposed representation letter.
- Annually, the removal and appointment, or re-appointment, of an external auditor to be proposed to the Society's membership.

## 8.5 Internal Control & Risk Management

The Audit & Risk Committee is responsible for:

*Regularly throughout the year*

- Monitoring progress of activity compared with the agreed risk management plan.
- Seeking reporting on any risk matter it chooses, on its own part or for the Board.
- Receiving regular reports from the risk management function describing the operation of the Risk Management System, the Internal Control System and the progress of the risk management plan, with particular reference to internal financial controls systems.
- Reviewing reports on material breaches of risk limits and the adequacy of proposed action.
- Considering proposals to amend the risk management plan.

*At least annually*

- Appointing a Chief Risk Officer, subject to regulatory agreement.
- Reviewing the Risk Strategy, Risk Policy and Risk Tolerances.
- Reviewing and agreeing the Risk Management System.
- Agreeing the ORSA policy.
- Considering ORSA output prior to its presentation to the Board.
- Agreeing role of any committees responsible for day-to-day risk and control management.

- Agreeing the annual risk management and internal control development plan, monitoring its execution and the resulting output.
- Assessing the performance of the risk management function.
- Reviewing the Society's capability to identify and manage new risk types.
- Reviewing management's responsiveness to risk management function findings.
- Ensuring that the CRO has unfettered direct access to the Board and Committee Chairs.

#### *Recommending to the Board*

##### Specifically

- The annual risk management plan and changes to it.
- Changes to the Risk Strategy, Risk Policy and Risk Tolerances.
- The ORSA Policy.
- A conclusion about the effectiveness of the Risk Management and the Internal Control System.
- An appropriate level of capital for Overall Solvency Needs, following the ORSA.
- The statements to be included in the annual report concerning internal control, risk management and the viability statement.

##### Generally

- Advice on the risk aspects, including impact on risk appetite, of strategic transactions, before any decision is made, such advice to include ensuring that appropriate due diligence is conducted with external advice if appropriate.

##### having regard to:

- the current and prospective macroeconomic and financial environment.
- drawing on financial stability assessments.

#### *Recommending to the Remuneration Committee*

- Advising on the risk weightings to be applied to performance objectives incorporated in executive remuneration, numerically and in quality terms.

### 8.6 Actuarial Function

The Audit & Risk Committee is responsible for:

#### *Regularly throughout the year*

Reviewing ad-hoc input from the actuarial function.

*At least annually*

- Considering the following:
  - valuation method
  - experience analysis
  - valuation basis.
- Considering and challenging the valuation results.
- Considering bonus proposals.
- Reviewing the work, performance and cost effectiveness of the actuarial function.
- Receiving and considering the annual report by the Chief Actuary.

*Recommending to the Board*

- The valuation method and valuation basis.
- The valuation results.
- The bonuses to be declared.
- Annually, the appointment of a Chief Actuary and a With Profits Actuary.

8.7 Compliance Function

*Regularly throughout the year*

- Monitoring progress of activity compared with the agreed compliance plan.
- Reviewing reports from the Money Laundering Reporting Officer.
- Considering reports of actual, suspected or near-miss fraud, bribery or financial crime.
- Considering reports of non-compliance in any area of the Society's business.
- Considering reports developed from whistleblowing concerns, as appropriate
- Overseeing planned marketing services agreements with distributor firms

*At least annually*

- Reviewing the financial crime risk assessment.
- Reviewing the adequacy and effectiveness of the Society's financial crime prevention systems and controls.
- Reviewing the adequacy and effectiveness of the Society's procedures for detecting fraud.
- Reviewing the adequacy and effectiveness of the Society's procedures for preventing bribery.
- Reviewing the adequacy and security of whistleblowing arrangements.

Considering the following:

and, after due challenge, recommending them to the Board.

#### *Recommending to the Board*

- The compliance plan and changes to it.

### 8.8 Asset Management & Investment

The Audit & Risk Committee is responsible for:

#### *Regularly throughout the year*

- Noting the progress of the assets.

#### *At least annually*

- Considering reporting provided to the Investment Committee on asset manager performance, asset security and investment plans.
- Considering how the plans affect financial reporting and matters of risk and control.
- Considering the revised counterparty and investment limits from the Investment Committee and, after due challenge, recommend them to the Board.

## **9. Reporting Responsibilities**

The Chair will report the Committee's activities to the Board at the Board's next suitable meeting.

Where relevant, the reporting will include:

- Details of significant issues that have been considered in relation to the financial statements and how these were addressed.
- The assessment of the effectiveness of the external audit process, the approach taken to the appointment or re-appointment, length of tenure of the audit firm, and plans for a re-tender.

The Committee is authorised to make whatever recommendations it deems appropriate, on any area within its remit, where action or improvement is needed, to the Board.

The Committee will make a statement in the Society's annual report about its activities.

## 10. Liaison with the Board and other Board Committees

The Committee's terms of reference are broad and overlap with the terms of other Board Committees. As part of the Society's overarching governance framework, the Committee is expected to interact with and complement the activities of other Committees where appropriate.

In particular, the Committee will liaise with the Remuneration Committee regarding the risks inherent in the Remuneration Policy, and with the Investment Committee regarding investment risk and the impact of investments on the financial statements.

## 11. Governance of the Committee

The Committee will review its own performance, constitution and terms of reference at least once a year to ensure that it is operating effectively. Any changes it considers necessary will be recommended to the Board for approval.

The Chair will appraise Committee Member performance in discussion with the Board Chair.

Committee Members will appraise the Chair in their discussions with the Board Chair.

## 12. Authority

The Committee is authorised to oversee any investigation of activities that are within its terms of reference. It will give due consideration to laws and regulations to which the Society is subject, and to appropriate corporate governance codes.

The Committee has access to sufficient resources to carry out its duties, including to the Company Secretariat.

The Committee is authorised to seek any information it requires, from any employee or contractor of the Society, to perform its duties. It can request the attendance of any employee at one of its meetings as and when required.

The Committee is authorised to obtain, at the Society's expense, external legal or other professional advice on any matters within its terms of reference.

The Committee has the right to publish details of any issues that cannot be resolved between the Committee and the Board in the Society's annual report.

**By Order of the Board**

**September 2018**