

# **Cirencester Friendly Society Limited**

**AUDIT & RISK COMMITTEE TERMS OF REFERENCE**  
Aug 2023

## **1. Constitution and Authority**

This document confirms the Board's decision to establish a Committee of the Board to be known as the Audit & Risk Committee ("the Committee"). The main role and responsibilities of the Committee are set out in these terms of reference, which will be made available on request.

## **2. Purpose**

The purpose of the Committee is to review the effectiveness of the Society's system of control for managing financial and non-financial risks (including conduct risk), and to monitor the integrity of the Society's financial statements including significant reporting judgements contained in them. The Committee is also responsible for reviewing and monitoring the effectiveness of both the internal and external auditors. The Committee is responsible for reporting to the Board any matters where it considers that action or improvement is needed and making recommendations as to the steps to be taken.

## **3. Membership**

- 3.1 The Committee will be appointed by the Board following consultation with the Chairman of the Committee. The Committee shall consist of four (4) members who shall be serving non-executive members of the Board.
- 3.2 At least one member of the Committee should have recent and relevant financial experience and it is desirable for one member to be a qualified accountant.
- 3.3 The Chairman of the Board shall not be a member of the Committee.
- 3.4 The Committee will appoint the Chairman of the Committee. In the absence of the Committee Chairman, the members present at that meeting shall elect a member to be Chairman for the purposes of that meeting.
- 3.5 Appointments to the Committee will be for a period of up to three years, which may be extended for up to two further period of three years, provided they remain a member of the Board.

## **4. Induction and Professional Development of Members**

Members of the Committee will be provided with appropriate and timely training, both in the form of a committee induction for new members and ongoing professional development for all members.

## **5. Frequency of Meetings**

The Committee will meet at least four times a year and otherwise as required.

## **6. Quorum at Meetings**

The quorum for a meeting shall be a majority of the members of the Committee. Directors may be present in person or by telephone or by other electronic means, provided that it is possible for a Director not present in person to hear and to be heard by all the other Directors attending the meeting.

If it appears that no quorum shall be present, the Chairman of the Board shall have power to co-opt any serving member of the Board onto the Committee, following consultation and agreement with the Chairman of the Committee.

If required, questions arising at or submitted to meetings shall be decided by a majority of votes, in the case of an equal vote, the Chairman of the Committee shall have an additional casting vote.

## 7. Attendance at Meetings

- 7.1 All members of the Committee shall be expected to attend meetings. Only members of the Committee will have a right to attend and vote at meetings. Any member of the Committee who shall be absent for two (2) consecutive meetings, without the prior approval of the Chairman of the Committee, shall have their service on the Committee terminated.
- 7.2 Other individuals such as the Chairman of the Board, the Chief Executive, other Directors, and other representatives of the control functions or business areas, may also be invited to attend as and when necessary, to assist the Committee in carrying out its obligations.
- 7.3 The internal and external auditors will be invited to attend meetings of the Committee on a regular basis.
- 7.4 The Committee will meet at least once a year with the internal and the external auditors, and the Director of Risk & Compliance without the presence of Executive Directors or management.
- 7.5 At the discretion of the Committee, other Board members may attend meetings of the Committee and participate in the business thereof but are not entitled to vote at Committee meetings. Notwithstanding, Executive Directors may not attend the closed meetings referred to in paragraph 7.4. The Board are entitled to receive all papers on request.

## 8. Notice of Meetings

- 8.1 Meetings of the Committee will be called by the Secretary of the Committee at the request of the Committee Chairman.
- 8.2 A schedule of planned meeting dates for the following year will be agreed and communicated to Committee members by Quarter 4 of the current year. Wherever possible the timetable for meetings will be planned to coincide with the financial reporting and audit cycle. Unless otherwise agreed, formal 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 and to any other person required to attend no later than four working days before the date of the meeting. Supporting papers will be sent to Committee members and to other attendees, as appropriate, at the same time.

## 9. Committee Access to Sufficient Resources

The Committee will have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required.

## 10. Minutes of Meetings

- 10.1 The Secretary will minute or arrange to be minuted the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 10.2 Draft minutes of Committee meetings will be circulated to the Committee Chairman for approval, normally within 10 working days of the meeting taking place. Once approved by the Committee Chairman, draft minutes should be circulated to all other members of the Board. Formal approval of the minutes by the Committee will take place at the next Committee meeting.

## 11. Committee Secretary

The Secretary of the Committee will be the Secretary to the Board (or his or her nominee).

## 12. Authority

The Committee is authorised by the Board to:

- 12.1 Review any activity within its remit.
- 12.2 Obtain, at the Society's expense, outside legal or other professional advice on any matters within its terms of reference.
- 12.3 Seek any information it requires from any employee of the Society in order to perform its duties, including inviting an employee to attend a meeting of the Committee as and when required.
- 12.4 Publish in the Annual Report details of any issues that cannot be resolved between the Committee and the Board.

## 13. Duties

The Committee will carry out the following duties:

### 13.1 Internal control Systems

The Committee will:

- 13.1.1 Oversee the adequacy and effectiveness of the Society's internal financial controls and internal control framework to manage the Society's key processes and risks.
- 13.1.2 Evaluate the extent to which management is setting the appropriate 'control culture' by communicating the importance of internal control and the management of risks and ensuring that all employees understand their roles and responsibilities.
- 13.1.3 Evaluate how management is ensuring the security of the Society's data and the contingency plans for processing information in the event of a system's failure and other risks to business continuity.
- 13.1.4 Evaluate the extent to which recommendations, where considered appropriate, made by the Director of Risk & Compliance and the internal and external auditors have been implemented by management.
- 13.1.5 Review and approve the statements to be included in the annual report concerning internal controls and risk management.

### 13.2 Assurance

The Committee will:

- 13.2.1 Review:
  - The effectiveness of the procedures for monitoring compliance with relevant legislation and regulations and the results of management's investigation and follow-up (including disciplinary action) of any acts of non-compliance.
  - Whether all regulatory and legal matters have been considered in the preparation of the financial statements

- The findings of any examinations by regulatory agencies.
- 13.2.2 Review and approve the annual work plan from the Director of Risk & Compliance and monitor progress with the plan.
- 13.2.3 Review whether there are adequate resources to carry out the plan.
- 13.2.4 Review regular reports provided by the Director of Risk & Compliance and ensure that significant findings and recommendations made by the Director of Risk & Compliance are considered and discussed on a timely basis.
- 13.2.5 Oversee the adequacy and effectiveness of the Society's procedures for detecting and managing fraud.
- 13.2.6 Oversee the adequacy and effectiveness of the Society's procedures for the prevention of bribery and receive reports on non-compliance.
- 13.2.7 Oversee the adequacy and effectiveness of the Society's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee will ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.
- 13.2.8 Meet privately with the Director of Risk & Compliance annually or as otherwise required.

### **13.3 Internal Audit**

The Committee will:

- 13.3.1 Monitor and review periodically the performance and effectiveness of the internal auditors.
- 13.3.2 Approve the appointment and removal of the internal auditors.
- 13.3.3 Review and approve the annual Internal Audit work plan and monitor progress with the plan.
- 13.3.4 Review reports addressed to the Committee from the internal auditors.
- 13.3.5 Meet separately with the internal auditors to discuss any matters that the Committee considers should be discussed privately.
- 13.3.6 Ensure that significant findings and recommendations made by the internal auditors are received and discussed on a timely basis.
- 13.3.7 Review and monitor management's responsiveness to the internal auditors findings and recommendations.
- 13.3.8 Ensure coordination between the internal auditors and the external auditors.
- 13.3.9 Ensure the internal auditor has direct access to the Chairman of the Audit and Risk Committee.

### **13.4 External Audit**

The Committee will:

- 13.4.1 Consider and make recommendations to the Board (for onward approval by members at the Annual General Meeting) regarding the appointment, reappointment and removal of the Society's external auditor. The Committee will oversee the selection process for a new external auditor. If an external auditor resigns, the Committee will investigate the issues leading to this and decide whether any action is required.
- 13.4.2 Oversee the relationship with the external auditor including:

- Making recommendations to the Board on their remuneration and that the level of fees is appropriate to enable an adequate audit to be conducted.
  - Approving their terms of engagement, including the engagement letter issued at the start of each audit and the scope of the audit.
  - Assessing annually their independence and objectivity, taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole. This includes satisfying itself that there are no relationships (such as family, employment, investment, financial or business relationships) between the auditor and the Society (other than in the ordinary course of business).
  - Approving a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter. Where non-audit services are provided by the external auditor, an explanation should be given in the annual report of how auditor objectivity and independence is safeguarded.
  - Agreeing with the Board the policy relating to the employment of former employees of the external auditor by the Society.
  - Monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners.
  - Assessing annually the qualifications, expertise and resources of the external auditor and the effectiveness of the audit process, which will include a report from the external auditor on their own internal audit quality procedures.
- 13.4.3 Meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage.
- 13.4.4 Meet separately with the external auditor to discuss any matters that the Committee considers should be discussed privately.
- 13.4.5 Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
- 13.4.6 Review the findings of the audit with the external auditor. This will include but is not limited to:
- A discussion of any major issues which arose during the audit.
  - Any accounting and audit judgements.
  - Levels of errors identified during the audit.
  - The effectiveness of the audit.
- 13.4.7 Review any representation letters requested by the external auditors before they are signed by management.
- 13.4.8 Review the management letter and management's response to the auditor's findings and recommendations, ensuring action plans are in place to implement recommendations.
- 13.4.9 Ensure the external auditor has direct access to the Chairman of the Audit and Risk Committee.

## **13.5 Financial Reporting**

The Committee will:

- 13.5.1 Review the integrity of the financial statements of the Society, ensuring significant financial reporting issues and judgements are considered and appropriate recommendations are made to the Board.

13.5.2 In particular, the Committee will review and challenge where necessary:

- The consistency of, and any changes to, accounting policies.
- The reserving assumptions and methodology, to ensure the calculation of provision of reserves in the accounts is in line with accounting and regulatory requirements.
- 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.
- All material information presented with the financial statements, such as the business review and the corporate governance statement

### **13.6 Risk Oversight**

The Committee will review and challenge where necessary:

- How the Society monitors new and emerging risks that are identified by the firm.
- The Society's principal risks and uncertainties.
- The Society's risk register.
- Horizon scanning of the insurance industry regulatory environment.

### **14. Reporting Requirements**

14.1 The Committee Chairman will report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

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

14.3 The Committee will produce a report of its role, main responsibilities, composition and activities to be included in the Company's Annual Report.

### **15. Review of Constitution and Terms of Reference**

The Committee will review its constitution and terms of reference at least annually to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

### **16. Performance Evaluation**

The Committee will arrange for an annual review of its own performance.

### **17. Annual General Meeting**

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