

TERMS OF REFERENCE

AUDIT & RISK COMMITTEE

1. Introduction

The Audit and Risk Committee (ARC) assists the Board in meeting its obligations under the Friendly Societies Act 1992 and the Financial Services and Markets Act 2000, in particular in respect of systems, controls, risk appetite and reports. The ARC provides a forum for independent oversight of the operations of the Society and any of its subsidiary companies.

2. Composition

2.1 The ARC will comprise a minimum of two Non Executive Directors and other members of the Board of Management.

2.2 The Board will nominate one of the non-executive members of the Committee as Chairman of the Committee.

2.3 The ARC may co-opt up to two additional members of Senior Management staff. Co-opted members should have the skills and experience necessary for them to make a useful contribution to the work of the Committee. Co-opted members will serve on the Committee for no longer than one year without reappointment.

3. Self Appraisal

On an annual basis the ARC should formally appraise its performance against its role and objectives and minute the extent to which it has met its requirements, together with an action plan should any shortcomings be identified.

4. Reporting Structure

The ARC will report directly to the Board, with the Chairman of the Audit Committee acting as spokesman.

5. Meetings

5.1 Meetings will normally be held four times a year. In case of need, the Chairman may call a special meeting of the Committee.

- 5.2 The agenda will be prepared by the Company Secretary and agreed with the Chairman of the ARC.
- 5.3 Minutes of the meetings will be taken by the Company Secretary and will then be circulated to Committee members and to Board members prior to the next appropriate Board meeting.
- 5.4 The agenda and support papers will be circulated to all members and invited attendees at least seven days before the next meeting.
- 5.5 A quorum is two members if the ARC, one of whom should be a Non Executive Director. No business will be conducted in the absence of a quorum. A meeting will terminate as soon as it becomes inquorate.
- 5.6 The ARC may request any attendees to leave the meeting in order that the Committee members can discuss matters confidentially.
- 5.7 The ARC should meet at least once a year with the both internal and external auditors in the absence of executive Board members or management.

6 Objectives

- 6.1 To advise the Board on risk appetite and tolerance within the capital constraints of the Society.
- 6.2 To oversee the risk management function and the effective operation of risk management policies and systems and documented procedures and other internal controls.
- 6.3 To monitor the effectiveness and adequacy of the Society's internal control, internal audit and IT systems
- 6.4 To oversee the development and implementation of a prioritized work plan for internal audit and consider reports from internal audit on issues they have identified.
- 6.5 To review the integrity of the Society's financial statements and ensure that they give a "true and fair view" of the Society's finances, recommending to the Board whether to approve the annual accounts.
- 6.6 To consider the annual management report from the external auditor.
- 6.7 To review the effectiveness of the internal and external auditors, their fees and their continuing appointment as Society auditors.

7 Authority

- 7.1 The Committee, through its Chairman, may request a private meeting with the external or internal auditors
- 7.2 The ARC may inspect any records of the Society and seek information from any of its employees
- 7.3 The ARC may seek external legal and professional advice if this is required for it to fulfil its duties and responsibilities.