



TERMS OF REFERENCE

AUDIT COMMITTEE

Adopted by the Board on 5th March 2019

1. Introduction

The Shepherds Friendly Society Audit Committee (AC) is established under the Authority of the Board of the Shepherds Friendly Society (“the Society”) to assist the Board and the Boards of subsidiary companies in exercising their integrity of their annual report and accounts, as more fully described in the provisions below. The AC provides a forum for independent oversight of the Audit matters for the Society and any of its subsidiary companies.

2. Purpose

The Audit Committee (AC) is a body that will:

- 2.1 ensure that through its work the best interests of the Society’s members and customers are always considered and protected;
- 2.2 undertake the role of the “third line of defence” within the Society’s governance framework and in fulfilling its expectations under Solvency II, oversee the performance of internal and external audit;
- 2.3 independently evaluate assurance from management, internal audit and external audit regarding the financial statements, governance and systems of internal control;
- 2.4 provide guidance and recommendations to the Board of the Society on matters affecting the Society’s annual report and accounts;
- 2.5 advise the Board that it considers the annual report and accounts taken as a whole are fair, balanced and understandable, and provide the information necessary for members to assess the company’s performance, business model and strategy.

3. Membership

- 3.1 The Committee will be appointed by the Board and will comprise of at least two Non-Executive Directors. The Board will nominate one of the Non-Executive members of the Committee as Chairman;
- 3.2 The Board may also elect to appoint an Independent Expert to the AC from outside the Society in order to enhance its effectiveness;
- 3.3 Any member should have the skills and experience necessary for them to make a

useful contribution to the work of the Committee and at least one member of the Committee shall have recent and relevant financial experience;

3.4 Other attendees may be invited by the Chairman.

3.5 The Company Secretary acts as Secretary to the Committee.

4. Meetings

4.1 Meetings will normally be held a minimum of four times a year. In case of need, the Chairman may call a special meeting of the Committee. Attendance may be by teleconference call with the consent of the Chairman;

4.2 The agenda will be prepared by the Company Secretary and agreed with the Chairman of the AC. The agenda and supporting papers will be circulated to members and invited attendees at least five days before the next meeting;

4.3 Minutes of the meetings will be taken by the Company Secretary or such other person as the Chairman may nominate and will then be circulated to Committee members and to Board members prior to the next meeting;

4.4 Two members are required to constitute a quorum. No business will be conducted in the absence of a quorum. A meeting will terminate as soon as it becomes inquorate;

4.5 The AC may request any attendees to leave the meeting in order that the Committee members can discuss matters confidentially;

4.6 The AC should meet at least once a year with each of the internal and external auditors in the absence of executive Board members or management. The Chairman may request a private meeting with the external or internal auditors at any other time;

4.7 The Chairman will be responsible for summarising the Committee deliberations and any recommendations to the subsequent Board meeting.

5. Powers and Responsibilities of the Audit Committee

The responsibilities and duties of this Committee will include the following:

5.1 Independent Auditors

- Make the necessary recommendation to the Board for the appointment, re-appointment or removal of the internal auditors;
- Make the necessary recommendation to the Board for the appointment, re-appointment or removal of the external auditors;
- Recommend the level of retainers, remuneration and any other contractual fee arrangements paid to auditors;

- Consider the independence of the External Auditor, in particular the level of non-audit work provided by the External Auditor and whether the Audit Partner has maintained sufficient independence;
- Review and recommend to the Board any selection, contract terms and responsibilities (audit & non-audit) of any internal or external audit function and ensure the necessary processes are in place to monitor and review performance and independence.
- To develop and implement a policy on the supply of non-audit services by the external auditor.

5.2 Financial Reporting and Systems of Internal Control

- Review and agree the policies and processes of the Society, with any significant changes being recommended to the Board;
- Consider the planning and completion reports provided by the External Auditors, the audit report and the Letter of Representation from the External Auditors highlighting key issues to the Board;
- Review significant financial reporting judgments contained in financial statements, raising any areas of concern to the Board;
- Review and approve the statements to be included in the annual report regarding going concern and the viability statement.
- Seek assurance that the systems of internal control and risk management systems are fit for purpose and operating effectively;
- Liaise with the RC to determine the levels of assurance over key risk areas, and ensure that control failings are reported to the RC;
- Review the integrity of the Society's financial statements, seek auditor assurance that they give a "true and fair view" and recommend to the Board whether to approve them;
- Ensure that reports supporting the financial statements (in so far as they relate to audit and risk management) are fair and consistent and compliant with The Corporate Code and other relevant legal requirements;
- Monitor any formal announcements relating to the Society's financial performance.
- Review tax compliance and tax planning initiatives

5.3 Internal Audit and Compliance

- Oversee the development and implementation of a prioritised work plan for internal audit and recommend to the Board that the annual Internal Audit Plan is approved;
- Review promptly reports and information submitted by Internal Audit, consider any significant control weaknesses highlighted by the reports and consider the adequacy of management's responses;
- Review reports from the Society's Money Laundering Reporting Officer to seek assurance that procedures and controls are up to date and effective, and that breaches are dealt with appropriately;
- Review minutes and reports of the RC to ensure that any issues affecting the agenda of the AC are identified and addressed.

5.4 Regulatory Reporting

- Review the Solvency Financial Condition Report and when required seek assurance from the external auditors that they have audited the relevant sections of the Report, and that in their opinion it had been prepared in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations. (Relevant sections reviewed by external auditors are the 'Valuation for solvency purposes' and 'Capital Management').

5.5 Whistleblowing and fraud

The Committee shall:

- Review annually the Society's whistle-blowing policy to ensure it includes provision for arrangements whereby staff may in confidence raise concerns about potential improprieties;
- Receive whistle blowing reports and ensure that arrangements are in place for the proportionate independent investigation of possible improprieties in matters of financial reporting or other matters and appropriate follow-up action;
- Review the adequacy and security of the Society's arrangements for its employees and contractors 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;
- Review the company's procedures for detecting fraud;
- Review the company's systems and controls for the prevention of bribery.

5.6 Other

- Review Management's annual self-assessment against The Corporate Code on an exceptions basis and ensure any areas of concern are escalated to the Board;
- Consider and make recommendations on any other issues as requested by the Board;
- Monitor potential Conflicts of Interest.

In the exercise of such responsibilities, the Committee has agreed that additional participants and information, as specified below, will provide further input to the deliberations of the Committee. These are:

- Any internal and external auditor will have access to the Audit Committee, without the presence of the management of the Society, at least once a year;
- The Committee will seek the considered input from the Executives to clarify matters raised as concerns for action by Internal or External Audit;
- The Committee will take advantage of the input and advice offered by the Risk Committee.

6. Escalation and Reporting Structure

6.1 The AC will report directly to the Board, with a spokesman as nominated by the Committee.

- 6.2 Internal and External Audit will report directly to the Chair of the AC for audit related matters and to the Chief Executive for day to day operational matters.
- 6.3 Matters that are deemed to be outside the responsibilities of AC will be raised at Board Level.

7. Authority

- 7.1 The AC may inspect any records of the Society and seek information from any of its Employees.
- 7.2 The AC may seek external legal and professional advice if this is required for it to fulfill its duties and responsibilities.

8. External communication

- 8.1 Be represented at the Annual General Meeting to respond to members' questions on Committee activities.
- 8.2 Ensure that all regulatory reporting conforms to legislative and/or regulatory reporting as required by EIOPA, PRA, FCA and Statutory Financial Statements.

9. Self Appraisal

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