

TERMS OF REFERENCE

AUDIT COMMITTEE

Adopted by the Board on 23rd March 2016

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 the integrity of its 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 independently evaluate assurance from management, internal audit and external audit regarding the financial statements, governance and systems of internal control;
- 2.3 provide guidance and recommendations to the Board of the Society on matters affecting the Society’s annual report and accounts, the effectiveness of the lines of defense and the appointment and performance of its auditors (external and internal);
- 2.4 advise the Board that it considers the annual report and accounts taken as a whole is fair, balanced and understandable, and provides the information necessary for members to assess the company’s performance, business model and strategy.

3. Reporting Structure

- 3.1 The AC will report directly to the Board, with a spokesman as nominated by the Committee.
- 3.2 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.

4. Membership

- 4.1 The Committee will be appointed by the Board and will comprise of one or more Non-Executive Directors , and such Executive as the Board see fit. The Board will nominate one of the Non-Executive members of the Committee as Chairman of the Committee.
- 4.2 The Board may also elect to appoint an Independent Expert to the AC from outside the Society in order to enhance its effectiveness
- 4.3 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.
- 4.4 Other attendees may be invited by the Chairman.

5. Meetings

- 5.1 Meetings will be held a minimum of 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 AC.
- 5.3 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.
- 5.4 The agenda and supporting papers will be circulated to all members and invited attendees at least seven days before the next meeting.
- 5.5 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.
- 5.6 The AC may request any attendees to leave the meeting in order that the Committee members can discuss matters confidentially.
- 5.7 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.
- 5.8 The AC may inspect any records of the Society and seek information from any of its employees
- 5.9 The AC may seek external legal and professional advice if this is required for it to fulfil its duties and responsibilities.

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

6. Escalation

Matters that are deemed to be outside the responsibilities of AC will be raised at Board level.

7. Powers and Responsibilities of the Audit Committee

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

7.1 Independent Auditors

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

7.2 Financial Reporting and Systems of Internal Control

- Review and agree the accounting policies of the Society, with any significant changes being recommended to the Board
- Consider the Annual Management Letter and 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
- Seek assurance that the systems of internal control and risk management systems are fit for purpose and operating effectively
- 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.

7.3 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 minutes and reports of the RC to ensure that any issues affecting the agenda of the AC are identified and addressed.

7.4 Regulatory Reporting

- Seek assurance that regulatory returns are accurate and timely.
- Review the Society’s FCA/PRA Annual return and make recommendations to the Board regarding its signing.

7.5 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.

7.6 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.

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

8. 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.