

# British Friendly Society

## Audit and Compliance Committee

### Terms of Reference

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The Audit and Compliance Committee (“the Committee”) is a committee of the British Friendly Society (“the Society”)’s Board (“the Board”). The Board and its committees are established pursuant to the Society’s Memorandum and Rules (“the Rules”) and unless specifically stated otherwise, terminology, words or expressions used in these Terms of Reference have the same meaning as in the Rules.

#### **1. Membership**

- 1.1. The Audit and Compliance Committee shall comprise at least 2 members, all of whom shall be independent non-executive directors. At least one member shall have recent and relevant financial experience and the Committee as a whole shall have competence relevant to the sector in which the Society operates.
- 1.2. Members of the Committee shall be appointed by the Board on the recommendation of the Nomination Committee and in consultation with the Chair of the Risk and Investment Committee.
- 1.3. Only members of the Committee and other non-executive directors have the right to attend Committee meetings. Other individuals such as the Chief Executive, Chief Risk Officer, internal audit and external audit lead partner(s) will be invited to attend meetings on a regular basis and other individuals may be invited to attend for all or part of any meeting, as and when appropriate.
- 1.4. The Board shall appoint the Committee Chair who shall be an independent non-executive director. In the absence of the Committee Chair the remaining members present shall elect one of themselves to chair the meeting who would qualify under these terms of reference to be appointed to that position by the Board. The Chair of the Board shall not be a member of the Committee.

#### **2. Secretary**

- 2.1. The Company Secretary, or their nominee, shall act as the secretary to the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

#### **3. Quorum**

- 3.1. The quorum necessary for the transaction of business shall be two, both of whom must be independent non-executive directors.

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#### 4. Frequency of meetings

- 4.1. The Committee shall meet at least three times a year and otherwise as required.

#### 5. Notice of meetings

- 5.1. Meetings of the Committee shall be called by the secretary of the Committee at the request of the Committee Chair or should the Chair refuse to call a meeting, then at the request of the any of its members.

#### 6. Minutes of the meeting

- 6.1. The Company Secretary, or their nominee shall minute the proceedings and decisions of all Committee meetings, including recording the names of those present and in attendance.
- 6.2. Chair approved draft minutes of Committee meetings shall be circulated to all members of the Committee and shall be reviewed, amended if necessary and approved by the Committee at its next meeting.

#### 7. Engagement with Members

- 7.1. The Committee Chair should attend the annual general meeting to answer any member questions on the Committee's activities. The Committee Chair should also be made aware of, and where appropriate, collaborate with the Chief Executive Officer or Company Secretary to answer any questions that are submitted virtually by members in advance of the annual general meeting.

#### 8. Duties (Financial Reporting)

- 8.1. The Committee should carry out the duties set out below for the Board as appropriate. The Committee shall:
- 8.2. Monitor the integrity of the financial statements of the Society, including its annual reports and review and report to the Board on significant financial reporting issues and judgements which those statements contain, having regard to matters communicated to it by the auditor review and then recommend approval by the Board.
- 8.3. Review and challenge the application of significant accounting policies and any changes to them.
- 8.4. Review and challenge the methods used to account for significant or unusual transactions where different approaches are possible.
- 8.5. Review and challenge the clarity and completeness of disclosures in the financial statements and the context in which statements are made

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- 8.6. Review and challenge all material information presented within the financial statements, including the strategic report and the corporate governance statements relating to the audit and risk management.
- 8.7. Review and consider returns to be submitted to the Prudential Regulation Authority (“PRA”) including Solvency and Financial Conditions Report (“SFCR”) and the Regular Supervisory Report (“RSR”) and satisfy itself the returns comply with relevant regulations and recommend approval by the Board.
- 8.8. Review and recommend approval by the Board of any relevant subsidiary company accounts.
- 8.9. Review and challenge all material information presented in the management accounts in relation to budgetary oversight including expenses.
- 8.10. Review and challenge information provided by the Society’s Actuarial Function before its inclusion in the financial statements or the regulatory returns outlined in 8.6.

### 9. Duties (Compliance)

- 9.1. The Committee shall:
- 9.2. Review the adequacy of the Society’s arrangements for its employees, contractors and external parties to raise concerns, in confidence about possible wrongdoing in financial reporting or other matters. The Committee shall ensure the arrangements allow proportionate and independent investigation and appropriate follow up action.
- 9.3. Receive and consider an annual report from the Society’s Whistleblowing Champion.
- 9.4. Review the Society’s procedures for detecting fraud.
- 9.5. Review the Society’s systems and controls for the prevention of bribery and receive reports on non-compliance.
- 9.6. Review the Money Laundering Reporting Officer’s annual report.
- 9.7. Review regular reports from the Compliance function and keep under review the adequacy and effectiveness of the Society’s compliance function.

### 10. Duties (Internal Audit)

- 10.1. The Committee shall:
- 10.2. Approve the appointment or termination of appointment of the internal audit function.
- 10.3. Approve internal audit terms of engagement.

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- 10.4. Review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work and annually approve the internal audit charter ensuring it is appropriate for the current needs of the Society.
- 10.5. Review and approve the annual internal audit plan to ensure it is aligned to the key risks of the business and receive regular reports on work carried out.
- 10.6. Ensure internal audit has the necessary resources and access to information to enable it to fulfil its mandate and ensure there is open communication between different functions and that the internal audit function evaluates the effectiveness of these functions as part of the internal audit plan.
- 10.7. Ensure the internal auditor has direct access to the Board chair and to the Committee chair, providing independence from the Executive and accountability to the Committee.
- 10.8. Meet with the internal audit partner without the presence of management to discuss the effectiveness of the function.
- 10.9. Review and assess the annual internal audit work plan.
- 10.10. Receive a report on the results of the internal auditor's work.
- 10.11. Determine whether it is satisfied that the quality, experience and expertise of the internal audit is appropriate.
- 10.12. Review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function.

### 11. Duties (External Audit)

- 11.1. The Committee shall:
- 11.2. Consider and make recommendations to the Board, to be put to members for approval at the AGM, in relation to the appointment, re-appointment and removal of the company's external auditor.
- 11.3. Develop and oversee the selection procedure for the appointment of the audit firm.
- 11.4. Investigate the issues leading to an external auditor resignation and decide action required.
- 11.5. Approve external auditor remuneration, including fees for audit and non-audit services.
- 11.6. Assess annually the external auditor's independence and objectivity including any threats to the auditor's independent and the safeguards

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applied to mitigate those threats including the provision of any non-audit services.

- 11.7. Satisfy itself there are no relationships between the auditor and the Society which could adversely affect the auditor's independence and objectivity.
- 11.8. Assess annually the qualifications, expertise and resources of the external auditor including a report from the external auditor on their own internal quality procedures.
- 11.9. Evaluate the risk to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the committee.
- 11.10. Review non-audit services by the auditor and assess if non-audit services have a direct or material effect on the audited financial statements ensuring no threats to the independence of the auditor, the nature of the non-audit services and the fees for non-audited services.
- 11.11. Meet regularly with the external auditor and at least once a year meet with the external auditor without management being present.
- 11.12. Review the findings of the audit with the external auditor to include any major issues which arose during the audit, explanation of how the risks to the audit quality were addressed, key accounting and audit judgements, auditor's view of interaction with senior management and levels of errors identified during the audit.
- 11.13. Review the management letter and management's response to the auditor's findings and recommendations.
- 11.14. Review the effectiveness of the audit process including the quality, handling of key judgements by the auditor and the auditor's response to questions from the Committee.

## 12. Reporting Responsibilities

- 12.1. The Committee Chair shall report to the Board after each meeting on the nature and content of its discussion, recommendations and actions to be taken.
- 12.2. The Report should include:
  - 12.2.1. Significant issues it considered in relation to the financial statements
  - 12.2.2. Its assessment of the effectiveness of the external audit process, approach taken to the appointment or reappointment of the external auditor.

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- 12.3. The Committee shall make whatever recommendations to the Board it seems appropriate within its remit where action or improvement is needed, and appropriate.
- 12.4. The Committee shall produce a report to be included in the Society's annual report describing the work of the Audit and Compliance Committee.

### 13. Other Matters

- 13.1. The Committee shall:
- 13.2. Have access to sufficient resources in order to carry out its duties
- 13.3. Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.
- 13.4. Give due consideration to all relevant laws and regulations as appropriate.
- 13.5. Ensure that a periodic evaluation of the Committee's own performance is carried out.
- 13.6. At least annually, review the Committee's constitution and terms of reference to ensure it is operating at maximum effectiveness recommending any changes necessary to the Board for approval.
- 13.7. The Committee is authorised by the Board to obtain, at the Society's expense, outside research, legal or other professional advice on any matters within its terms of reference.

Terms of Reference approved by the Board on **21 February 2024**