

# RELIANCE MUTUAL GROUP

## AUDIT AND RISK COMMITTEE TERMS OF REFERENCE

### 1. Overall purpose and responsibility of the committee

The audit and risk committee ("the Committee") seeks to gain assurance, on behalf of the Board of the Group, that an appropriate governance, risk and control framework is in operation ensuring that a process is in place for the review of systems and controls, both financial and otherwise, and for ensuring that the Group is complying with all relevant aspects of the law, regulation and good practice.

### 2. Membership

The Committee shall be appointed by the Board of the Society and shall be composed of independent non-executive directors. The Chair of the Committee may not be the Chair of the Society. The Company Secretary acts as Secretary to the committee.

### 3. Frequency of meetings, quorum and notice

The committee meets at least three times a year and at one of those meetings meets with the internal and external auditors in the absence of management. A minimum of two members of the committee are required to attend in order for business to be conducted. Ordinarily notice of meetings, agendas and papers will be provided seven days before the date of the meeting. Minutes of committee meetings will be circulated promptly to members of the committee for review and to all other members of the Board for review, unless inappropriate to do so.

### 4. Conduct of the committee

Any resolution or decision of the committee shall be passed by a simple majority and resolutions may be passed between meetings either in writing or by electronic communications.

### 5. Method of operation

The audit and risk committee will assist the board in fulfilling its oversight responsibilities, and to this end:

- 5.1 The Committee shall be a committee of the board of Reliance Mutual Insurance Society Limited and its subsidiary companies ("the Group").

- 5.2 The Committee shall be composed of such non-executive directors as asked by the Board and shall agree to serve from time to time.
- 5.3 The Board shall elect a Chair who shall be responsible for the reporting of the recommendations of the Committee to the Board of the Society.
- 5.4 The Committee shall meet at such times as it shall think fit in order to discharge its responsibilities in a timely manner.
- 5.5 The Committee may invite such other people to its meetings as it deems appropriate.
- 5.6 The internal and external auditors should be invited to make presentations to the Committee as appropriate and meet without management present at the request of either party.
- 5.7 The Committee shall take reports from the internal audit, compliance and risk management functions and office holders, as it deems appropriate.

## **6. Responsibilities**

The board authorises the Committee, within the scope of its responsibilities to:

- 6.1 Seek information from relevant employees
- 6.2 Obtain outside professional advice
- 6.3 Ensure the attendance of officers of the Society at meetings as appropriate

## **7. Duties**

The duties and responsibilities of the Committee are:

### **7.1 Financial Reporting**

- 7.1.1 To monitor the integrity of the financial statements of the Group, reviewing significant financial reporting issues and judgements contained in them;
- 7.1.2 In particular, the Committee shall review and challenge where necessary:
  - 7.1.2.1 The consistency of, and changes to, accounting policies on a year on year basis and across the Society/Group
  - 7.1.2.2 The methods used to account for significant or unusual transactions where different approaches are possible

- 7.1.2.3 Whether the Society/Group has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor
- 7.1.2.4 The clarity of disclosure in the Society's/Group's financial reports and the context in which the statements are made; and
- 7.1.2.5 All material information presented with the financial statements, such as any business or financial review and corporate governance statement (insofar as it relates to the audit and risk management).

## 7.2 **Internal controls and risk management systems**

The committee shall

- 7.2.1 Keep under review the adequacy and effectiveness of the Group's financial and internal controls and risk management systems; and
- 7.2.2 Review and approve statements included in the annual report concerning governance, internal controls and risk management.

## 7.3 **Compliance, whistleblowing and fraud**

The Committee shall

- 7.3.1 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
- 7.3.2 Review the Society's procedures for detecting fraud
- 7.3.3 Review the Society's systems and controls for the prevention of bribery and receive reports on non-compliance
- 7.3.4 Review reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the Society's anti -money laundering systems and controls
- 7.3.5 Review reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Society's compliance function

#### **7.4 Internal Audit**

The Committee shall

- 7.4.1 Monitor and review the effectiveness of the internal audit function in the context of the its overall risk management system
- 7.4.2 Approve the appointment and removal of the head of the internal audit function
- 7.4.3 Consider and approve the remit of the internal audit function and ensure that it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management and other restrictions
- 7.4.4 Where the internal audit function is outsourced, assess both the extent of services required and the capability of resources deployed by the internal audit service provider
- 7.4.5 Review and assess the annual internal audit plan
- 7.4.6 Review reports addressed to the Committee from the internal auditor
- 7.4.7 Review and monitor management's responsiveness to the findings and recommendations of the internal auditor
- 7.4.8 Meet the head of internal audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of access to the chairman of the Board and the Committee

#### **7.5 External Audit**

The committee shall

- 7.5.1 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. The Committee shall oversee the selection process for a new auditor and if an auditor resigns the committee shall investigate the issues leading to this and decide whether any action is required

- 7.5.2 Oversee the relationship with the external auditor including (but not limited to)
  - 7.5.2.1 Recommendations of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted
  - 7.5.2.2 Approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit
  - 7.5.2.3 Assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including provision of any non-audit services
  - 7.5.2.4 Satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the company (other than in the ordinary course of business)
  - 7.5.2.5 Agreeing with the board a policy on the employment of former employees of the company's auditor, then monitoring the implementation of this policy
  - 7.5.2.6 Monitoring of the auditor's compliance with the relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements
  - 7.5.2.7 Assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures
  - 7.5.2.8 Seeking to ensure co-ordination with the activities of the internal audit function
- 7.5.3 Meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit reporting stage. The Committee shall have the option to meet the external auditor at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit
- 7.5.4 Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement
- 7.5.5 Review the findings of the audit with the external auditor. This shall include but not be limited to, the following
  - 7.5.5.1 A discussion of any major issues which arose during the audit
  - 7.5.5.2 Any accounting and auditing judgements

7.5.5.3 Levels of errors identified during the audit

7.5.5.4 The effectiveness of the audit

The Committee shall also

7.5.6 Review any representation letter(s) requested by the external auditor before they are signed by management

7.5.7 Review the management letter and management's response to the auditor's findings and recommendations

7.5.8 Develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

## **8. Risk**

The committee shall

8.1 Advise the Board on the Group's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment drawing upon financial stability assessments such as those published by the Bank of England, the Financial Services Authority and other authoritative sources that may be relevant for the Group's risk policies

8.2 Oversee and advise the board on the current risk exposures of the Group and future risk strategy

8.3 In relation to risk assessment;

8.3.1 Keep under review the Group's overall risk assessment processes that inform the Board's decision making, ensuring both qualitative and quantitative metrics are used

8.3.2 Review regularly and approve the parameters used in these measures and the methodology adopted

8.3.3 Set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance

8.4 Review the Group's capability to identify and manage new risk types

8.5 Review reports of any material breaches of risk limits and the adequacy of proposed action

- 8.6 Keep under review the effectiveness of the Group's internal controls and risk management systems and review and approve the statements to be included in the annual report concerning internal controls and risk management
- 8.7 Consider and approve the remit of the risk management function and ensure that it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The committee shall also ensure the function has adequate independence and is free from management and other restrictions
- 8.8 Recommend to the Board the appointment and/or removal of the head of risk
- 8.9 Review promptly all reports on the Society/Group from the head of risk
- 8.10 Review and monitor management's responsiveness to the findings and recommendations of the head of risk
- 8.11 The head of risk shall be given the right of access to the chairman of the Board and to the Committee

## **9. Reporting Responsibilities**

- 9.1 The Committee chair shall report to the Board on its proceedings and on all matters within its duties and responsibilities.
- 9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3 The Committee shall produce a report on its activities to be included in the Group's annual report.

## **10. Other Matters**

The Committee shall

- 10.1 Have access to sufficient resources in order to carry out its duties, including access to the Society's secretariat for assistance as required
- 10.2 Be provided with appropriate and timely training, both in the form of an induction programme for new members and an ongoing basis for all members

- 10.3 Give due consideration to laws and regulations, the provisions of the Code and the requirements of any other applicable Rules, as appropriate
- 10.4 Be responsible for the co-ordination of internal and external auditors
- 10.5 Oversee any investigation of activities that are within its terms of reference
- 10.6 Arrange for periodic reviews of its own performance and, at least annually review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

## **11. Authority**

The Committee is authorised

- 11.1 To seek any information it requires from an employee of the Society in order to perform its duties
- 11.2 To obtain, at the Society's expense, outside legal or other professional advice on any other matter within its terms of reference
- 11.3 To call any employee to be questioned at a meeting of the Committee as and when required
- 11.4 To have the right to publish in the Group's annual report on any issues that cannot be resolved between the Committee and the Board.

## **12. Outside the scope of the Committee**

For the avoidance of doubt, the Committee shall not have responsibility for the investment policy of the Group, which shall remain a responsibility of the full Board, acting through the investment committee.

For the avoidance of doubt, the Committee shall not have responsibility for the amount of the Long Term Business Provision or the Technical Provision for Linked Liabilities, which are the responsibility of the Board, which takes advice from the Actuarial Function Holder.

For the avoidance of doubt, the Committee will not normally advise the board on proposed strategic transactions, including acquisitions and disposals, as the full Board will be responsible for ensuring that a due diligence appraisal of the proposition is undertaken, risk is addressed and taking independent external advice where appropriate.

Last approved 24.11.11