

## 1.0 OBJECTIVE

- 1.1 The Committee is responsible to the Committee of Management for the oversight of the financial reporting process, the integrity of financial statements and information in the report & accounts, assurance over the internal systems of control, governance and risk management, the adequacy and scope of the compliance and internal audit functions and oversight of the relationship with the external auditors.

## 2.0 COMPOSITION

- 2.1 The members of the Committee, not being less than three in number, shall be appointed by the Committee of Management one of whom shall be appointed by the Committee of Management to chair the Committee. All members of the Committee should be independent non-executive directors at least one of whom shall have recent and relevant financial experience. (The Chairman of the Committee should not be the Chairman of the Committee of Management or Managing Board.)
- 2.2 In the absence of the Committee Chairman, the remaining members present shall elect one of their number to chair the meeting.
- 2.3 The Company Secretary or his/her nominee shall be the secretary of the Committee.
- 2.4 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as members of the Executive, other members of management and the heads of internal audit and compliance, together with other relevant persons, may attend meetings at the invitation of the Chairman of the Committee as and when appropriate.
- 2.5 The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 2.6 Attendees are not members of the Committee and they may be collectively or individually requested to withdraw from meetings of the Committee if required to do so by the Chairman of the Committee.

## 3.0 MEETINGS

### 3.1 Quorum

The Committee shall have a quorum of two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee. A quorum may be present in person or in communication with each other by telephone. To count in the quorum a person who is in communication with the others by telephone must be able to hear fully, and participate in, the proceedings.

### 3.2 Frequency

The Committee will meet formally at least twice a year. Additional ad-hoc/event-driven meetings may be called by any member of the Committee or the secretary and the Committee shall also meet to consider any specific issue if so requested by the Society's internal or external auditors or compliance officers.

### 3.3 Notice

Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee no later than 3 working days before the date of the meeting. Supporting papers shall be sent to

Committee members and to other attendees as appropriate at the same time. Ad hoc meetings to deal with unexpected or unusual events may be called at short notice.

The Committee may make decisions outside of meetings in writing provided all members of the Committee sign to confirm their approval of the decision.

### 3.4 Minutes

The Secretary shall keep appropriate records of all meetings of the Committee with appropriate minutes of the proceedings and resolutions; copies of which shall be circulated to all members of the Committee, the Committee of Management and the Managing Board.

### 3.5 Reporting

The Chairman of the Committee shall report its proceedings to the Committee of Management and attend general meetings prepared to respond to any questions on the Committee's activities.

The Committee shall make whatever recommendations it deems appropriate on any area within its remit where action or improvement is needed.

## 4.0 DUTIES

4.1 The responsibilities of the Audit Committee shall cover the following areas within which the Committee will consider any matters that it determines as being appropriate. The Committee is concerned with the business of the whole Police Mutual Group and its authority extends to all relevant matters relating to any company or business unit in the Group.

### 4.1.1 Internal controls and risk management systems

To ensure adequate assurance is obtained over the effectiveness of the Society's internal systems of governance, control and risk management that impact on the strategic, financial and operational policies and plans of the Society and its subsidiaries

### 4.1.2 Whistleblowing and fraud

The Committee shall

- review the Society's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters, whilst ensuring that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.
- Review the company's procedures for detecting fraud

### 4.1.3 Financial reporting

The Committee shall monitor the integrity of the financial statements of the Group, including the annual report and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The Committee shall also review summary financial statements if they are prepared and significant financial returns to regulators.

The Committee shall review and challenge where necessary:

- the consistency of any changes in accounting policies and practices and financial reporting disclosures both on a year on year basis and across the company/Group
- the methods used to account for significant or unusual transactions where different approaches are possible

- whether the company has followed appropriate accounting standards, solvency and legal requirements and made appropriate estimates and judgements, taking into account the views of the external auditor
- items where figures (including provisions and solvency issues relating to insurance business) materially depend upon matters of judgement
- the "going concern" assumption
- significant audit adjustments and unadjusted items
- the clarity of disclosure in the company's financial reports and the context in which statements are made
- and obtain assurance that the content of all such statements is fairly stated, underlying assumptions are appropriately validated and that all appropriate disclosures are included.

#### 4.1.4 External audit

The Committee shall:

- Consider and make recommendations to the Committee of Management to be put to delegates for approval at the AGM, in relation to the appointment and removal of the company's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required
- To appoint an auditor on behalf of the Committee of Management to fill any casual vacancy occurring between general meetings of the Society
- Oversee the relationship with the external auditor including (but not limited to):
  - Approval 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
  - Approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit
  - Assessing periodically their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services
  - Ensuring the audit partner is rotated at intervals
  - Assessing periodically the expertise, resources and effectiveness of the audit process
  - Seeking to ensure co-ordination with the activities of the internal audit function
- Meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit
- Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement
- Review the findings of the audit with the external auditor. This shall include but not be limited to, the following
  - a discussion of any major issues which arose during the audit
  - any accounting and audit adjustments
  - levels of errors identified during the audit

The Committee shall also review the effectiveness of the audit:

- review any representation letter(s) requested by the external auditor before they are signed by management
- review the management letter and management's response to the auditor's findings and recommendations
- develop and implement a policy on the supply of non-audit services by the external auditor and periodically review the non-audit fees paid to the external auditors

#### 4.1.5 Internal audit

The Committee shall

- Monitor and review the scope and effectiveness of the company's internal audit function in the context of the company's overall risk management system
- Approve the appointment and removal of the head of the internal audit function
- Consider and approve the remit of the internal audit function, ensure 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 or other restrictions;
- Review and assess the breadth of the annual internal audit plan
- Review the material findings and recommendations from internal audit reports
- Review and monitor management's responsiveness to the findings and recommendations of the internal auditor
- 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 have the right of direct access to the Chairman of the Managing Board and the Committee
- Review the co-ordination with the external auditors and communication of key findings to them;
- The independence of the internal audit function.

#### 4.1.6 Compliance

The Committee shall

- Monitor and review the scope and effectiveness of the compliance function
- Approve the appointment and removal of the head of the compliance function
- Consider and approve the remit of the compliance function, ensure 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 or other restrictions
- Review and assess the breadth of the annual compliance plan
- Review the material findings and recommendations from compliance monitoring reports
- Review and monitor management's responsiveness to the findings and recommendations of the compliance function
- Meet the Head of Compliance at least once a year without management being present to discuss their remit and any issues arising from the compliance monitoring carried out. In addition, the Head of Compliance shall have the right of direct access to the Chairman of the Managing Board and the Committee
- Review the Society's compliance with regulatory requirements
- Review the culture of compliance within the Society
- Any other matters relevant to the Society's compliance obligations

#### 4.1.5 General

The Committee shall also

- give due consideration to laws and regulations, the provisions of the Annotated Combined Code and FSA regulations
- satisfy itself that there is appropriate co-ordination of the internal and external auditors
- oversee any investigation of activities which are within its terms of reference and act for internal purposes as a court of the last resort

#### 5.0 AUTHORITY

- The Committee is authorised by the Committee of Management, when the fulfilment of its duties requires and at the Society's expense, to obtain independent legal or professional

advice and secure the attendance of external advisers at its meetings on any matters within its terms of reference. The Committee shall have full authority to commission any reports or surveys it deems necessary to help fulfil its obligations.

- The Committee is authorised to seek any information it requires from any employee of the Society or its subsidiaries in order to perform its duties
- The Committee shall have the power to call any officer or employee to be questioned at a meeting of the Committee.
- The Committee shall have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required