



**Terms of Reference
Audit Committee**

**Last updated
8 November 2017**

1.0 Objective

- 1.1 The Audit Committee is responsible to the Managing Board for the oversight of the financial reporting process, the integrity of financial statements and information in the report and accounts together with oversight of the relationship with the external auditors. The Audit Committee also has the objective of ensuring assurance over the internal systems of control, the adequacy and scope of the Internal Audit Function.

2.0 Composition

- 2.1 The members of the Committee shall be appointed by the Managing Board. Membership of the Committee shall consist of at least three non-executive directors on the Managing Board. All members of the Committee should be independent non-executive directors at least one of whom shall have recent and relevant financial experience and with competence in accounting and/or auditing.
- 2.2 The Managing Board will appoint one of the non-executive members to chair the Committee. The Chair of the Committee should not be the Chair of the Committee of Management, Managing Board or the Risk Committee.
- 2.3 In the absence of the Committee Chair, the remaining members present shall elect one of their number to the meeting.
- 2.4 The Company Secretary or his/her nominee shall be the Secretary of the Committee.
- 2.5 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as members of the Executive, may attend meetings at the invitation of the Committee Chair as and when appropriate. The Chief Finance Officer, Chief Risk Officer, Chief Internal Auditor and external audit lead partner or their senior representative will be invited to attend meetings of the Committee on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 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 Chair of the Committee.
- 2.7 The Chair of the Committee is responsible, supported by the Company Secretary, Chief Finance Officer and Chief Internal Auditor for agreeing and setting agenda items and for challenging the level of detail and format of Committee submissions. Matters reported should be summarised in a way which allows the Committee members to understand any key issues.

3.0 Meetings

3.1 Quorum

- 3.1.1 The quorum necessary for the transaction of business shall be two members present in person or in communication with each other by telephone or video conference. 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. To count in the quorum a person who is in communication with the others by telephone or video conference must be able to hear fully, and participate in, the proceedings.
- 3.1.2 Questions arising at a meeting of the Committee will be decided by a majority of votes and (in the event of a tie) the Chair of the meeting will have a second or casting vote unless the issue is material in which case it should be escalated to the Managing Board for a decision in line with the escalation requirements in section 5.0 of these terms of reference.

3.2 **Frequency**

- 3.2.1 The Committee will meet no less than three times in one calendar year at appropriate intervals in the financial reporting and audit cycle. Additional ad-hoc/event-driven meetings may be convened by the Company Secretary at the request of any member of the Committee, the Company Secretary, the Chief Internal Auditor or the external auditor lead partner.
- 3.2.2 Outside of formal meetings, the Committee Chair will maintain a dialogue with key individuals involved in the Police Mutual Group's governance, including the Chair of the Managing Board, the Chair of the Risk Committee, the Chief Executive, the Chief Finance Officer, Chief Internal Auditor, Chief Risk Officer and the external audit lead partner as they consider it necessary.

3.3 **Notice**

- 3.3.1 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 five 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.
- 3.3.2 Ad hoc meetings to deal with unexpected or unusual events may be called at short notice. However no acts of any meeting of the Committee shall be invalid merely because less than five days' notice of any meeting was given.
- 3.3.3 It shall not be necessary to give notice of a meeting of the Committee to a Committee member who is absent from the United Kingdom.

3.4 **Minutes**

- 3.4.1 The Company Secretary shall keep appropriate records of all meetings with appropriate minutes of the proceedings and resolutions so as to provide evidence that the Committee is discharging its responsibilities.
- 3.4.2 Committee minutes are to be circulated by the Secretary to all members of the Committee and the Managing Board. Any member of the Committee of Management can request copies of the records and minutes at any time.

3.5 **Decisions made outside of meetings**

- 3.5.1 The Committee may reach decisions outside of meetings in writing (invariably by email) at the discretion of the Chair of the Committee, taking into account the materiality and timeliness of the decision required and provided all members of the Committee respond to confirm their approval of the decision. In exercising this authority the Chair must balance the need for urgency with the overriding principle that each Committee member has a right to participate in the decision and has responsibility for the outcome, should be given as much information as possible, the time to consider it properly and an opportunity to discuss the matter prior to the conclusion of a decision.
- 3.5.2 It shall not be necessary to receive a response for a decision made in writing from a Committee member who is absent from the United Kingdom at the time the decision is concluded through the responses of all other Committee members.
- 3.5.3 The decision will be valid and effectual as if it had been approved at a meeting of the Committee that had been duly convened and held, on the basis that all those entitled to participate in the decision and responsible for the outcome have had the opportunity to consider the matter and confirm their position.
- 3.5.4 Unless the Chair of the Committee exercises their discretion otherwise due to time being of the essence, decisions made outside of meetings should be put to members of the Committee with at least 5 clear working days' notice to respond.

3.6 Record keeping

- 3.6.1 Records of all Committee meetings including but not limited to committee packs and minutes will be kept at Alexandra House, Lichfield in hard and soft copy and maintained by the Company Secretary.
- 3.6.2 A copy of any decisions made outside meetings in writing, any supporting documentation provided and all Committee member responses will be presented to the next formal meeting of the Committee following the decision and noted in the minutes of that meeting as a formal record of the decision.
- 3.6.3 All Committee records will be retained in perpetuity.

3.7 Maintaining Terms of Reference

- 3.7.1 These terms of reference are reviewed on an annual basis and at any time a change is identified as required. The Committee is responsible for this periodic review and submitting any recommended changes to the Managing Board for approval. The Managing Board or Company Secretary may also recommend changes to the terms of reference at any time.
- 3.7.2 No changes to the terms of reference may be submitted for approval to the Managing Board without the prior consideration of the Company Secretary in order that any implications for the Delegated Authority Matrix can be assessed and no amendments are made to the standardised aspects of the terms of reference that apply to all sub-committees without the Company Secretary's approval. The Company Secretary is responsible for executing the required changes and presenting the updated version to the Committee for review and to the Managing Board for approval.
- 3.7.3 The Company Secretary will maintain records of each approved version of the terms of reference for a period of 10 years in line with regulatory requirements for the retention of Governance Map records.

3.8 Effectiveness & Training

- 3.8.1 The Committee shall arrange for periodic reviews of its own effectiveness and recommend any changes it considers necessary to the Managing Board.
- 3.8.2 The Chair of the Committee is responsible for ensuring Committee members are provided with appropriate and timely training, both in the form of induction arrangements for new Committee members and an ongoing basis for all members.

3.9 Conflicts of Interest

- 3.9.1 Each member of the Committee should consider whether they have any conflicts of interest prior to participating in meetings of the Committee and making decisions regarding the business of the Police Mutual Group. In the event an actual or potential conflict of interest exists the Committee member should discuss the matter with the Committee Chair, if and how the conflict should be managed or mitigated, confirm the conclusion of that discussion at the affected meeting and report the conflict to the Chief Risk Officer in order that it can be recorded in the Conflicts of Interest register.

4.0 Duties

4.1 Allocated duties

- 4.1.1 The following duties are allocated to the Committee within which it will consider any matters that it determines as being appropriate. The Committee is concerned with the conduct of the business of the whole Police Mutual Group and its authority extends to all relevant matters relating to any activity in the Police Mutual Group.

4.2 Financial reporting

4.2.1 The Committee shall review the integrity of the financial statements and regulatory returns of the Group and recommend them for approval to the Managing Board, including the:

- Statutory Annual Report & Accounts;
- Solvency Financial Condition Report (SFCR);
- any other formal statements relating to its financial performance.

4.2.2 The Committee shall review and report to the Managing Board (for approval where the Audit Committee believes it necessary) the significant financial reporting issues and judgements or significant actuarial methodologies and assumptions which those statements contain having regard to matters communicated to it by the auditor.

4.2.3 The Committee shall challenge where necessary:

- and approve the application of significant accounting policies and any changes to them;
- and approve the methods used to account for significant or unusual transactions where different approaches are possible;
- and review whether the Police Mutual Group has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements and;
- and approve the application of significant actuarial methodologies and assumptions and changes to them in the regulatory returns;
- and approve the actuarial content of life assurance figures (including reinsurance) that are to be included in financial statements and verify the appropriateness of the actuarial methods and assumptions used and the financial results that depend on actuarial calculations;
- and approve the asset valuation methodology, valuation bases and any material changes;
- material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management.

4.2.4 The Committee shall review any other statements requiring Managing Board approval which contain financial information first, where to do so is practicable and consistent with any prompt reporting requirements under law or regulation or not already delegated to the Risk Committee.

4.2.5 In addition, the Committee shall also, in the context of financial reporting:

- approve the use of intercompany loans, letters of support and parent company guarantees;
- review and report to the Managing Board on the expense allocation methodology prior to its approval by the Managing Board;
- oversee the approach to any material HMRC matters.

4.2.6 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Police Mutual Group, it shall report its views to the Managing Board.

4.3 Narrative Reporting

Where requested by the Managing Board, the Committee should review the content of the Annual Report & Accounts and advise the Managing Board on whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for members to assess the Police Mutual Group's performance, business model and strategy.

4.4 Internal audit

4.4.1 The Committee shall

- safeguard the independence of the Chief Internal Auditor and the Internal Audit function;
- Approve the appointment, succession planning and continuation in office at any time, including the suspension or termination of service of the Chief Internal Auditor.

- 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 Police Mutual Group.
- Review and approve the annual internal audit plan to ensure it is aligned to the key risks of the Police Mutual Group, and receive regular reports on work carried out.
- Ensure internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions and that the Internal Audit Function evaluates the effectiveness of these functions as part of its internal audit plan, and ensure that the internal audit function is equipped to perform in accordance with the appropriate professional standards for internal auditors.
- Ensure the Chief Internal Auditor has access to the Chair of the Managing Board and to the Chair of the Committee, providing independence from the executive and accountability to the Committee.

4.4.2 carry out an annual assessment of the effectiveness of the internal audit function, and as part of this assessment:

- meet with the Chief Internal Auditor without the presence of management to discuss the effectiveness of the function;
- review and assess the annual internal audit work plan;
- receive a report on the results of the Chief Internal Auditor's work;
- Determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the Police Mutual Group; and
- review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the Internal Audit Function;

4.4.3 monitor and assess the role and effectiveness of the internal audit function in the overall context of the Police Mutual Group's risk management system and work of the Compliance and Finance functions and the external auditor; and

4.4.4 obtain an independent and objective external assessment of the internal audit function at appropriate intervals which could be reviews of elements of the function, or a single review of the overall function. In any event, the internal audit function as a whole should as a minimum be subject to a review at least every five years, as set out in the International Professional Practice Framework for Internal Audit. The conformity of Internal Audit with this guidance should be explicitly included in this evaluation. The Chair of the Audit Committee should oversee and approve the appointment process for the independent assessor.

4.4.5 The Committee Chairman is responsible for monitoring the performance of the Chief Internal Auditor as part of their reporting line to the Committee Chairman including approving the Chief Internal Auditor's remuneration including any bonus arrangements, their objectives and conducting their performance review in consultation with the Chief Executive as part of the Chief Internal Auditor's 'dotted' reporting line to the Chief Executive.

4.5 **Systems of Internal control**

4.5.1 To ensure adequate assurance is obtained over the effectiveness of the Police Mutual Group's systems of internal control that impact on the strategic, financial and operational policies and plans of the Group or financial reporting.

4.5.2 Review and challenge prior to Managing Board approval the statements to be included in the statutory Annual Report & Accounts and Solvency Financial Condition Report concerning internal control, risk management and the viability statement. The Risk Function will provide to the Committee an 'Annual Statement of Risk Management and Internal Control' to support the review.

4.5 **External audit**

The Committee shall:

- 4.6.1 consider and make recommendations to the Managing Board, to be put to delegates for approval at the AGM, in relation to the appointment, re-appointment and removal of the external auditor;
- 4.6.2 develop and oversee the selection procedure for the appointment of the audit firm, ensuring that all tendering firms have access to all necessary information and individuals during the tender process;
- 4.6.3 if an external auditor resigns investigate the issues leading to this and decide whether any action is required;
- 4.6.4 oversee the relationship with the external auditor. In this context the committee shall:
 - approve their remuneration, including both fees for audit and non-audit services, and ensure that the level of fees is appropriate to enable an effective and high quality audit to be conducted; and
 - approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- 4.6.5 assess annually the external auditor's independence and objectivity taking into account relevant UK law, regulation, the Ethical Standard and other professional requirements and the Group's relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services;
- 4.6.6 satisfy itself that there are no relationships between the auditor and the Police Mutual Group (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- 4.6.7 agree any matters relating to the employment of former employees of the Police Mutual Group's auditor, taking into account the Ethical Standard and legal requirements, and monitor the application of this policy;
- 4.6.8 monitor the auditor's processes for maintaining independence, its compliance with relevant UK law, regulation, other professional requirements and the Ethical Standard, including the guidance on the rotation of audit partner and staff;
- 4.6.9 monitor the level of fees paid by the Police Mutual Group to the external auditor and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standard. Similarly monitor the level of fees paid for internal audit services;
- 4.6.10 assess annually the qualifications, expertise and resources, and independence of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
- 4.6.11 seek to ensure co-ordination of the external audit with the activities of the internal audit function;
- 4.6.12 evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee;
- 4.6.13 develop and recommend to the Managing Board the Police Mutual Group's formal policy on the provision of non-audit services by the auditor, including the approval of non-audit services by the committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:
 - threats to the independence and objectivity of the external auditor and any safeguards in place;
 - the nature of the non-audit services;
 - whether the external audit firm is the most suitable supplier of the non-audit service;

- the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
- the criteria governing compensation;

4.6.14 meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and, at least once a year, meet with the external auditor without management being present, to discuss the auditor's remit and any issues arising from the audit;

4.6.15 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;
- the auditor's explanation of how the risks to the audit quality were addressed;
- key accounting and audit adjustments;
- the auditor's view of their interactions with senior management; and
- levels of errors identified during 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; and
- review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee.

4.7 Other matters

The Committee shall:

- 4.7.1 give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and any regulatory requirements;
- 4.7.2 be responsible for co-ordination of the internal and external auditors;
- 4.7.3 oversee any investigation of activities which are within its terms of reference;
- 4.7.4 work and liaise as necessary with all other sub-committees, taking particular account of the impact of risk management and internal controls being delegated to different sub-committees.

5.0 Reporting and Escalation

5.1 Reporting

5.1.1 The Audit Committee has an agenda schedule which sets out the reports received for each meeting. Regular reporting includes:

- Year-end reporting
- Financial statements and reports
- Report on the use of external/internal auditor for non-audit work
- Internal Audit Report
- Annual Internal Audit Plan

5.1.2 In addition, the Audit Committee receives ad hoc and event driven reports.

5.1.3 The Committee Chair shall report formally to the Managing Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Managing Board on how it has discharged its responsibilities. This report shall include:

- the significant issues that it considered in relation to the financial statements (required under paragraph 4.2.2) and how these were addressed;

- its assessment of the effectiveness of the external audit process (required under paragraph 4.6.10), the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans; and
- any other issues on which the Managing Board has requested the Committee's opinion.

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

5.1.5 The Committee shall compile a report on its activities to be included in the Police Mutual Group's Annual Report & Accounts. The report should include an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor; and all other information requirements set out in the UK Corporate Governance Code.

5.1.6 In compiling the reports referred to in 5.1.3 and 5.1.5, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Managing Board's assessment of whether the Police Mutual Group is a going concern and the inputs to the Managing Board's viability statement. The report to members need not repeat information disclosed elsewhere in the Annual Report and Accounts, but could provide cross-references to that information

5.1.7 The Chair of the Committee shall attend Committee of Management and general meetings prepared to respond to any questions on the Committee's activities.

5.2 Escalation

5.2.1 The Committee will escalate to the Managing Board any decision or action required which is in excess of authority limits allocated to it and any other issue which the Committee deems material and or escalation is required in order for the Managing Board and the Committee of Management to effectively exercise their duties.

5.2.2 The Finance Function, Chief Finance Officer, Internal Audit Function, Chief Internal Auditor and other sub-committees will escalate to the Audit Committee, any decision or action required which is in excess of authority limits allocated to the individual, function or sub-committee and any other issue which is deemed material and or escalation is required in order for the Committee to effectively exercise its duties.

6.0 Authority

6.1 The Committee is authorised by the Managing Board, when the fulfilment of its duties requires and at the Police Mutual Group'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 reasonably deems necessary to help fulfil its obligations.

6.2 The Committee is authorised to seek any information it requires from any employee of the Police Mutual Group in order to perform its duties.

6.3 The Committee is authorised to call any officer or employee to be questioned at a meeting of the Committee.

6.4 The Committee is authorised to have the right to publish in the Police Mutual Group's Annual Report & Accounts, details of any issues that cannot be resolved between the Committee and the Managing Board.

6.5 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.

- 6.6 The delegations set out in the duties of the Committee and the duties allocated to the other sub-committees are also set out in the Delegated Authority Matrix which provides an aggregated picture of the delegation of authority to all corporate committees and the individuals to which those committees have in turn delegated specific responsibilities.