

# WESLEYAN

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## **Terms of Reference Audit Committee**

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Prepared by: Company Secretary  
Version Date: 07/2017

# **Wesleyan Assurance Society**

## **Audit Committee**

### **Terms of Reference**

#### **Corporate Governance**

- 1 The Committee is a sub-committee of the Board and
  - (a) the Chair of the Committee shall report to the Board after each meeting on the matters it has reviewed and make recommendations approved by the Committee;
  - (b) the Committee shall review annually its terms of reference and its own effectiveness and recommend any necessary changes to the Board;
  - (c) the Board shall review the Committee's effectiveness annually;
  - (d) an induction programme for new Committee members shall be provided.

#### **Scope and Purpose**

- 2 The scope of the Committee is Wesleyan Assurance Society and its subsidiary companies.
- 3 The purpose of the Committee is to assist the Board in discharging its responsibilities for the integrity of the Society's financial statements and those of its subsidiary companies, its regulatory returns and those of its subsidiary companies to the FCA and PRA as applicable and the effectiveness of the systems of internal controls and to monitor the effectiveness, performance and objectivity of the compliance function and the internal and external auditors.
- 4 The Committee is supported in discharging its responsibilities by the Wesleyan Bank Limited ('the Bank') Audit Committee, which has responsibility for assisting the Bank Board by undertaking similar roles and responsibilities as set out below in respect of the Bank.

#### **Definitions**

- 5 In these Terms of Reference:

**Statutory Audit Regulation** means Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC)

#### **Role and Responsibilities**

- 6 The main roles and responsibilities of the Committee are:

### ***External auditors***

- a) to consider the appointment, reappointment, dismissal or resignation of the external auditor of the Society and its subsidiary companies;
- b) to be responsible for the procedure for the selection of the external auditor and recommend the external auditor to be appointed, where applicable, in accordance with Article 16 of the Statutory Audit Regulation, except when Article 16(8) of the Statutory Audit Regulation is applied, and make appropriate recommendations to the Board to put to the members for approval at the Annual General Meeting concerning the appointment of the external auditor;
- c) to approve the external auditor's engagement letter and any amendments thereto;
- d) to consider and recommend the external audit fee to the Board;
- e) to review with the external auditor the nature, scope and effectiveness of the annual external audit process including their quality control procedures;
- f) to review and recommend to the Board letters of representation to the external auditor, if any, in respect of the financial statements and regulatory returns to the FCA and PRA as applicable;
- g) to review and monitor the independence of the external auditor in accordance with, where applicable, paragraphs 2(3), 2(4), 3, 4(1), 4(2), 5 to 8 and 10 to 12 of Schedule 1 to the Statutory Auditors and Third Country Auditors Regulations 2016 (SI 2016/XXX) and, where applicable, Article 6 of the Statutory Audit Regulation, and in particular the suitability of the provision of non-audit services to the firm in accordance with Article 5 of the Statutory Audit Regulation;
- h) to review at least once per year the qualification, expertise and resources and independence of the external auditor and report to members on how these responsibilities have been carried out;
- i) to monitor the statutory audit of the annual and consolidated financial statements, in particular, its performance, taking into account, where applicable, any findings and conclusions of the Financial Reporting Council Limited pursuant to Article 26(6) of the Statutory Audit Regulation;

### ***Financial reporting***

- j) to monitor the financial statements and regulatory returns to the FCA and PRA as applicable of the Society and its subsidiary companies, and any formal announcements relating to the Society's financial performance, through reviewing and challenging where necessary, the judgements of management made in the preparation thereof, focussing particularly on:
  - i) compliance with generally accepted accounting practice and standards;
  - ii) the appropriateness of, and any changes to, critical accounting policies and accounting practices;

- iii) the appropriateness of the methods and assumptions used in calculating significant accounting estimates including liabilities to policyholders;
  - iv) the appropriateness of methods used to account for significant or unusual transactions where different approaches are possible;
  - v) the extent to which the financial statements are affected by any unusual transactions in the period and the proposed disclosures therein;
  - vi) the clarity and comprehensiveness of the disclosures including providing full explanations to members as to why the Society has chosen not to follow a provision of the UK Corporate Governance Code and explaining and reporting on progress with the Society's policies on boardroom diversity;
  - vii) any significant adjustments, made or not made, arising from the audit;
  - viii) the going concern assumption;
  - ix) the viability statement;
  - x) compliance with legal and regulatory requirements;
  - xi) any significant pending legal actions being reported;
  - xii) the financial statements being taken as a whole are fair, balanced and understandable and that the narrative sections are consistent with the financial statements and accurately reflect the performance of the respective business;
- k) on completion of the review of the Society's financial statements and those of its subsidiary companies, its regulatory returns and those of its subsidiary companies to the FCA and PRA as applicable to inform the Board of the outcome of the statutory audit, explain how the statutory audit contributed to the integrity of financial reporting and the role of the Audit Committee in that process and make a recommendation to the respective Boards regarding their approval;

### ***Internal Controls***

- l) to monitor the effectiveness of the Society's internal quality control and risk management systems and its internal audit function, regarding the financial reporting of the Society, without breaching its independence;
- m) to review and assess the effectiveness of the systems of internal financial controls;
- n) to monitor the financial reporting process and submit recommendations or proposals to ensure its integrity;
- o) to review any statement on internal control systems to be contained in the annual report and accounts and the regulatory returns made to the FCA and PRA as applicable and make recommendations regarding their approval to the Board;

- p) to consider management's response (in the absence of management if necessary) to significant recommendations on internal control improvements made by the external auditor and internal audit and the findings of major internal investigations into control weaknesses, frauds or misconduct and management's response;
- q) to oversee the independence, autonomy and effectiveness of the policies and procedures of the Society and its subsidiary companies on whistleblowing including the procedures for protection of staff who raise concerns from detrimental treatment;

### ***Internal Audit***

- r) to approve the appointment or dismissal of the head of internal audit and to participate jointly with the chief executive in:
  - (i) the determination of the objectives of the head of internal audit;
  - (ii) the evaluation of his performance against those objectives; and
  - (iii) the determination of his/her remuneration;
- s) to review and approve the approach, nature and scope of internal audit;
- t) to consider the structure and operation of internal audit to ensure that it is adequately resourced and has appropriate standing within the group and is effective;
- u) to review and approve the annual internal audit plan;
- v) to review all high and fundamental rated issues reflected in internal audit reports;

### ***Compliance Function***

- s) to approve the appointment or dismissal of the head of compliance oversight function and participate in the determination of his/her remuneration;
- t) to review and approve the approach, nature and scope of monitoring compliance with regulations;
- u) to consider the structure and operation of compliance function to ensure that it is adequately resourced and has appropriate standing within the group and is effective;
- v) to review and approve the annual compliance monitoring plan;
- w) to review all high and fundamental rated issues reflected in compliance reports.

## **Membership**

- 7 The Committee shall comprise of at least three members, all of whom shall be independent non-executive directors.
- 8 The Chair of the Committee shall be appointed by its members.

- 9 Appointments to the Committee are made by the Board on the recommendation of the Nominations Committee, in consultation with the Committee Chair.
- 10 Appointments should be for a period of up to three years, extendable by no more than two additional three-year periods, so long as members continue to be independent.
- 11 A quorum shall be two members at least one of whom has competence in accounting and / or auditing. In the absence of the Committee Chair, the remaining members present shall elect one of themselves to chair the meeting.
- 12 The members of the Committee as a whole shall have competence relevant to the sector in which the Society and its subsidiaries operate.

## **Attendance**

- 13 The Company Secretary shall be the Secretary of the Committee.
- 14 Other Board members can attend any meeting of the Committee. The Committee can at any time nominate a meeting, or part thereof, as being one at which other Board members cannot attend.
- 15 The Chair of the Bank Audit Committee may attend any meeting by invitation of the Committee.
- 16 The Chief Actuary, the head of Internal Audit, the head of Compliance Oversight function and a representative of the external auditor shall attend all meetings at the invitation of the Committee. Other members of management may attend by invitation of the Committee.
- 17 A separate part of each meeting will normally be set aside for discussions without executive directors or other employees present. Each of the external auditors, the head of Internal Audit, the head of the Compliance Oversight functions and the Chief Actuary shall have the right to meet the Committee without executive directors present. The Committee shall meet the external auditors and the head of Internal Audit at least once per year without executive directors or other employees present to discuss their remit and any issues arising from the work carried out.

## **Frequency**

- 18 The Committee will meet at least four times per year. Sufficient time should be allowed to enable the Committee to undertake as full a discussion as may be required. A sufficient interval should be allowed between Committee and main Board meetings to allow any work arising from the Committee meeting to be carried out and reported to the Board as appropriate.
- 19 The Committee has authority to approve any matters by written resolution.
- 20 Members of the Committee and other directors may request a meeting of the Committee. The external auditors or the head of the Internal Audit function or the head of the Compliance Oversight function or the Chief Actuary may also request a meeting of the Committee.

## **Rights**

- 21 The Committee may investigate any activity within its terms of reference. It may seek any information it requires from any employee and all employees should co-operate with its requests.
- 22 The Committee may direct either the external or internal auditor to undertake or commission investigations on its behalf and to follow up on any suspicions of fraud.
- 23 The Committee may obtain outside professional advice and, if necessary, invite outsiders with relevant experience to attend meetings. In particular the Board will make funds available to the Committee to enable it to take independent legal, accounting or other advice when the Committee reasonably believes it necessary to do so.
- 24 The Head of Internal Audit, the head of Compliance Oversight function and the Chief Actuary shall have direct access to the Chair of the Committee.

## **Reporting procedures**

- 25 The Committee will receive reports from the Bank Audit Committee Chair of their activities.
- 26 The Secretary shall circulate minutes of the meetings of the Committee to all members of the Board, the external auditors and such other attendees of the meetings as the Chair of the Committee shall direct or, if no direction, as the Secretary shall think fit. A report of the meeting together with extracts of the minutes as appropriate shall be circulated to members of the boards of the subsidiary companies, including Wesleyan Bank, on matters dealt with in respect of those companies.