

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## AUDIT AND RISK COMMITTEE – TERMS OF REFERENCE

### 1. Objectives

The objectives of the Committee are to assist the Board in ensuring that:

#### 1.1 With regard to audit matters:

- (a) the accounting systems provide accurate and up to date information on the financial position of the Society, and that the published Annual Report and Accounts and Interim Review represent a true and fair reflection of this position and that regulatory information and summary financial information is on a properly prepared basis.
- (b) appropriate accounting policies and systems of internal control are in place for the Society , taking account of those internal controls and other activities carried out by third parties in relation to their provision of services to the Society .
- (c) the Society meets, in all material respects, the provisions relating to Principles C1, C2 and C3 of The UK Corporate Governance Code appended to the Listing Rules of the Financial Conduct Authority and the Guidance on Audit Committees, except where the Board does not consider that the guidance is appropriate or relevant to the Society (as shown in Appendix I to these Terms of Reference).
- (d) the Society complies with the Financial Services and Markets Act 2000 and Money Laundering Regulations.

#### 1.2 With regard to risk matters:

- 1. The risk appetite is appropriate for the Society's needs.
- 2. Key risks are identified and managed.

### 2. Membership

- (a) The Committee shall be appointed by the Board from amongst the independent non-executive Directors of the Society and shall consist of not less than 3 members
- (b) The Chairman of the Committee shall be appointed by the Board.
- (c) The quorum required for meetings of the Committee shall be attendance by two members of the Committee

### 3. Attendance at meetings

- (a) In addition to members of the Committee, the Chairman may request that others attend any or all meetings of the Committee, including:
- (i) Officers of the Society, including:
    - Chief Executive Officer
    - Finance Director
    - With-Profits Actuary
    - Chief Actuary
    - Risk Director
  - (ii) A Partner of the firm responsible for the external audit of the Society
  - (iii) The Head of Internal Audit or, where this function is outsourced, a partner of the firm undertaking internal audit services for the Society
  - (iv) Notwithstanding the primary role of the Chief Executive to monitor the activities of the Society, where considered appropriate, senior representatives of key third party service suppliers to the Society, including their Internal Audit, Regulatory Risk and relevant risk management functions
- (b) Subject to giving prior notification to the Chairman of the Board and to the Chairman of the Committee and with the limitation of the two immediately following paragraphs, other Board members shall also have the right of attendance. *(This is not consistent with the Guidance on Audit Committees (20) but is appropriate for the Society's circumstances.)*
- (c) At least once a year the Committee shall meet with the external auditors without executive Directors or other executives present, to discuss any unresolved issues or concerns. Where appropriate and unless there are justifiable reasons for not doing so, the substance of any such matters discussed shall be conveyed to the Chief Executive.
- (d) At least once a year the Committee shall meet with the Head of Internal Audit or, where this function is outsourced, a partner of the firm undertaking internal audit services for the Society without executive Directors or other executives present.
- (e) At least once a year the Committee shall meet individually with each of the following without other executives or executive Directors present: Risk Director; Finance Director; Chief Actuary.
- (f) The Company Secretary, or a suitable delegate, shall be the Secretary of the Committee.

#### **4. Frequency of meetings**

- (a) Meetings shall be held not less than three times a year, or more frequently as circumstances require.
- (b) One meeting shall be scheduled prior to the approval of the Annual Report and Accounts. The same or another meeting shall be scheduled prior to the approval of the annual regulatory returns and Individual Capital Assessment/ORSA report submitted to the PRA.
- (c) The external auditors may request a meeting with the Committee or the Chairman if they consider that one is necessary.

#### **5. Authority**

The Committee is authorised by the Board:

- (a) to investigate any activity within its terms of reference;
- (b) to seek any information it requires from any employee related to any matter within the Committee's terms of reference, and all employees are directed to co-operate with any request made by the Committee;
- (c) to obtain, at the Society's expense, external legal or other professional advice on any matter falling within its terms of reference;
- (d) to invite third parties with relevant experience and expertise to attend meetings of the Committee, if it considers this necessary to properly discharge its duties.

#### **6. Duties**

##### ***6.1 Annual Reports and other periodic reports***

To comply with the Guidance on Audit Committees (32 to 38) on financial reporting and other aspects specific to the Society, as follows

- (a) to review, and report to Board on, the significant financial reporting issues and judgements made in connection with the preparation of the financial statements, interim reports and related formal statements;
- (b) to consider significant accounting policies, any changes to them and any significant estimates and judgements;
- (c) to consider whether the company has adopted appropriate accounting policies and, where necessary, made appropriate estimates and judgements;
- (d) to review the clarity and completeness of disclosures in the financial statements and consider whether the disclosures made are set properly in context.

- (e) to review related information presented with the financial statements, including the strategic report and corporate governance statements relating to the audit and to risk management.
- (f) to review any statements containing financial information, significant financial returns to regulators and release of price sensitive information. This will include returns to be submitted to meet the requirements contained in the PRA Rulebook and FCA Handbook and other rules and guidance, and more generally to comply with the Insurance Companies Act (1982) and the Financial Services and Markets Act 2000.
- (g) to review the Society's ORSA, including reporting to the PRA.
- (h) to consider any changes to the approach and methodology used in preparing the ORSA
- (i) to review the key assumptions and parameters used in the Society's modelling processes and ORSA Report, and make recommendations to the Board.
- (j) where requested by the Board, to review the content of the annual report and accounts and advise on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary to assess the company's performance, business model and strategy.
- (k) any review undertaken would need, where requested, to assess whether the narrative in the front of the report was consistent with the accounting information.

## **6.2 Whistleblowing**

- (a) To review arrangements by which staff may, in confidence, raise concerns about possible improprieties.
- (b) To ensure arrangements are in place for proportionate and independent investigation and for appropriate follow-up action.

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

To comply with the Guidance on Audit Committees (39 to 44) on internal controls and other aspects specific to the Society, as follows

- (a) to review the Society's internal financial controls and the Society's internal control and risk management systems. This will include consideration of the following
  - the nature and extent of the risks facing the Society;
  - the extent and categories of risk which the Board regards as acceptable for the Society to bear;
  - the likelihood of the risks concerned materialising;
  - the ability of the Society to reduce the incidence and impact on the business of risks that do materialise;
  - the overall culture and attitude towards control established within the Society and relevant aspects of third party service suppliers;
  - the business continuity plans, and related testing of their maintenance and operation, covering the Society;
  - the timeliness of any corrective action being taken by the Executive to address any shortcomings in internal control;

- the policies and processes necessary for the Society to comply with their relevant regulatory and legal requirements, including taxation; and
  - where directed by the Board, other matters such as the Society's code of corporate conduct/business ethics
- (b) to review the Society's internal control and assurance framework and to provide a report to the Board on which it can base its statement in the Report and Accounts in relation to internal control and risk management.
- (c) Specifically in relation to the regulatory obligations of the Society, to review reports from the Executive addressing:
- the relationship with the PRA and the FCA and other relevant regulatory bodies;
  - the Society's compliance with the Financial Services & Markets Act 2000 and related legislation;
  - the systems and controls established by the Executive for compliance with the regulatory requirements, as specified in the PRA Rulebook and the FCA Handbook;
  - the culture of compliance within the Society, and other relevant third party service suppliers;
  - the Society's overall compliance position, having particular regard to the PRA's and the FCA's annual regulatory themes;
  - the relationship with HMRC and any relevant overseas tax authorities; and
  - the Society's compliance with relevant tax law, rules and regulations in the UK and elsewhere
- (d) In relation to the relevant 'Assurance' functions operated by the Society or within the Society's service suppliers (typically including Compliance, Internal Audit and Risk Management):
- At least annually, to review reports prepared by the Executive covering, inter alia, their terms of reference, scope of work, authority and resources (insofar as they relate to the activities of the Society );
  - At least annually, to review reports prepared by the Executive on the relevant assurance work carried out in relation to the activities of the Society, together with the findings from that work.
- (e) To review the co-ordination of work between the external auditors and the other providers of assurance to the Society.
- (f) To ensure that a statement is made in the annual report and accounts to confirm that necessary action has been or is being taken to remedy any significant failings or weaknesses identified from the review of the effectiveness of the internal control system.
- (g) To review the reports presented by the Executive and other providers of assurance within and to the Society where appropriate, to address whether the overall system of internal control of the Society is functioning effectively to manage risks in the manner that the Board has approved.

- (h) Taking account of the risks to the Society and any other factors, consider the plans or proposals by the Executive to undertake or commission any supplementary audit or other assurance work.
- (i) Based upon reports prepared by the Executive covering the above plans, activities and findings, to consider the cumulative assurance that can be derived on the operational effectiveness of matters related to risk and control.

#### **6.4 The internal audit process**

To comply with the Guidance on Audit Committees (45 to 56) on the internal audit process, in particular

- (a) to monitor and review the effectiveness of the company's internal audit function;
- (b) to review and approve the internal audit function's remit;
- (c) to review and approve the internal audit plan;
- (d) to ensure that the function has the necessary resources and access to information and is equipped to perform in accordance with appropriate professional standards;
- (e) to approve the appointment or termination of appointment of the head of internal audit.

#### **6.5 The external audit process**

To comply with the Guidance on Audit Committees (57 to 79) on the external audit process and other aspects,

- (a) to have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors;
- (b) to assess annually, and report to the board on, the qualification, expertise and resources, and independence of the external auditors and the effectiveness of the audit process;
- (c) to ensure the Society complies with regulation on audit retendering;
- (d) to consider whether there might be any benefit in using audit firms from more than one audit network
- (e) to approve the terms of engagement and the remuneration to be paid to the external auditor;

- (f) to review and agree the engagement letter issued by the external auditor at the start of each audit;
- (g) to satisfy itself that the level of fee payable in respect of the audit service is appropriate;
- (h) to have procedures to ensure the independence and objectivity of the external auditor annually;
- (i) to agree with the board the company's policy for the employment of former employees of the external auditor and monitor application of the policy;
- (j) to develop and recommend to the board the company's policy in relation to the provision of non-audit services by the auditor and to keep the policy under review;
- (k) to monitor that non-audit fees do not exceed the limits set out in EU legislation;
- (l) to ensure, at the start of each annual audit cycle, that appropriate plans are in place for the audit;
- (m) to review, with the external auditors, the findings of their work;
- (n) to review the audit representation letters before signature by management;
- (o) to review the management letter and to monitor management's responsiveness to the external auditor's findings and recommendations;
- (p) to assess, at the end of the annual audit cycle, the effectiveness of the audit process.
- (q) To consider the need to include the risk of withdrawal of the auditor from the market in risk evaluation and planning.

## **6.6 Other risk matters**

In addition to the consideration of risk items covered in items 6.1 to 6.5, the Audit and Risk Committee shall review

- (a) the development, implementation and maintenance of the Society's overall risk management framework and its risk appetite, strategy, principles and policies, to ensure they are in line with emerging regulatory, corporate governance and industry best practice;
- (b) the Society's risk exposures and adherence to the Society's risk policies and standards and to consider any material amendments to them.

## **6.7 Other duties**

- (a) To review other disclosures or documents, as determined by the Board.
- (b) To review its terms of reference annually, and propose changes where required, requesting approval from the Board for all changes.
- (c) To review the effectiveness of the Audit and Risk Committee annually.
- (d) To review the training needs of the Committee and its members to ensure the Committee maintains the requisite skills and experience and to instruct the Executive to implement, or to engage other parties to provide, training for the Committee to meet these needs.
- (e) To review corporate governance statements.

## **7. Secretarial and reporting procedures**

The Secretary and Chairman of the Committee shall prepare an agenda for each meeting, to be circulated to members prior to the meeting. Where appropriate, any other papers due to be considered at the Committee meeting shall be circulated with the agenda.

The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board. The Committee shall be responsible for agreeing the accuracy and completeness of those minutes.



## Appendix I

### Guidance on Audit Committees

The objectives of the Audit and Risk Committee include ensuring that the Society meets the Guidance on Audit Committees except where the Board does not consider that the guidance is appropriate or relevant to the Society.

The Board does not consider the following sections to be appropriate or relevant to the Society:

- (a) Section 20 “No one other than the audit committee chairman and members is entitled to be present at a meeting of the audit committee. It is for the audit committee to decide if non-members should attend for a particular meeting or a particular agenda item. It is to be expected that the finance director, head of internal audit and external audit lead partner will be invited regularly to attend meetings.” - The Audit and Risk Committee has issued a general invitation to all Directors to attend Audit and Risk Committee meetings if they wish.

In addition, in the following sections “shareholders” is to read “members”: 8, 30, 60, 70 and 80. In section 3 “shareholders” is to read “members and other stakeholders”.