

FAMILY ASSURANCE FRIENDLY SOCIETY LIMITED

Risk & Audit Committee

Terms of Reference

Constitution

The Committee of Management (“C of M”) hereby resolves to establish a sub committee of the C of M to be known as the Risk & Audit Committee (“the Committee”).

Membership

The Committee shall be appointed by the C of M from amongst the non-executive C of M members and shall consist of not less than three members. A quorum shall be two members.

At least one of the Committee shall have recent and relevant financial experience.

The Chairman of the Committee shall be appointed by the C of M.

Current members of the Committee are Mr Peter Box (Chairman), Mrs Veronica France, and Mr Ian Buckley.

Attendance At Meetings

The Chief Executive Officer, Finance Director, Corporate Services Director, Head of Audit & Risk Review, Internal Audit Manager, Financial Controller and representatives of the external auditors shall normally be invited to attend meetings.

Other C of M members shall also have the right of attendance.

At least once a year the Committee shall meet separately with the external auditors, the Head of Audit & Risk Review and the Internal Audit Manager without any executive C of M members being present.

Reporting

The Head of Audit & Risk Review shall be the Secretary of the Committee and shall circulate the minutes of meetings of the Committee to all members of the C of M.

The Chairman of the Committee will report to the C of M at their next meeting, or earlier if appropriate.

Minutes of each meeting shall be approved by the Chairman on behalf of the Committee and retained.

Frequency Of Meetings

Meetings shall be held not less than three times a year and at other times as the Chairman of the Risk & Audit Committee shall require.

The external auditors, Head of Audit & Risk Review, Internal Audit Manager and any member of the Risk & Audit Committee may request a meeting if they consider one is necessary.

Authority

The Committee is authorised by the C of M to carry out any activities within its terms of reference.

It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

The Committee is authorised by the C of M to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

The Committee assists the C of M to satisfy itself of the effectiveness of the risk management processes, internal control systems and the integrity of the Society's financial reporting.

The Committee acts in the role of the With-Profits Committee.

Duties and Responsibilities of the Risk & Audit Committee (the "Committee")

The duties and responsibilities of the Committee shall be to:

Risk Management

1. review and oversee the design and effective implementation of the risk management framework, including adequate systems of internal control
2. review the integrity of the control and risk management systems including the identification, measurement, assessment, monitoring and reporting of risks.
3. advise the C of M on risk related matters including policy, strategy and implementation for each area of risk namely: Operational; Strategic; Financial; Investment; Liquidity; Credit; and Insurance
4. consider the appointment of the Head of Audit & Risk Review
5. receive the Risk Register, Investment Sub Committee minutes and other management information and monitor management actions to manage risk
6. review the Risk Manual (including risk policy and appetite statements and the procedures for minimising, preventing and detecting fraud) and make recommendations to the C of M for approval on at least an annual basis, and monitor adherence against the statements.
7. review the firm's "Top Tier" risk list and monitor the nature and implementation of associated risk mitigation activities.
8. consider management's response to any major risk issues and recommendations and escalate to the C of M as considered appropriate.

Compliance

1. advise the C of M on compliance related matters.
2. review and approve the Compliance Monitoring Plan and monitor the activities of the Compliance Department.

3. satisfy itself that there is sufficient quality and quantity of resource within the Compliance department.
4. consider management's response to any major compliance issues and recommendations and escalate to the C of M as considered appropriate.
5. consider and approve the Compliance Charter.
6. consider and support regulatory requirements and visits

External Audit

1. consider and make recommendations to the C of M on the appointment of the external auditor, the audit fee, and any questions of resignation or dismissal.
2. approve the terms of engagement of the external auditor
3. discuss with the external auditors before the audit commences the nature and scope of the audit.
4. discuss problems, issues and reservations arising from the interim and final audits, and any matters which the external auditor may wish to discuss.
5. review the external auditor's management letter and management's response.
6. review any representation letter requested by the external auditor before being signed by management
7. develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.
8. review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements.

Internal Audit

1. monitor and review the effectiveness of the internal audit function in the context of the overall risk management system
2. consider the appointment of the Internal Audit Manager.
3. review and approve the Internal Audit Work Programme and ensure co-ordination between the internal and external auditors.
4. ensure that the Internal Audit function is adequately resourced and has appropriate standing within the Society.
5. consider the major findings of internal investigations and management's response in respect of internal controls, risk management and financial reporting.
6. consider and approve the Internal Audit Charter.

Financial Reporting

1. review the integrity of the annual financial statements before submission to the C of M, or approve them if so authorised by the C of M to do so, focusing particularly on:

- any changes in accounting policies and practices
 - major judgmental areas
 - the methods used to account for significant or unusual transactions
 - significant adjustments resulting from the audit
 - the going concern assumption
 - compliance with accounting standards and the clarity of disclosures and the context in which they are made
 - compliance with legal and regulatory requirements
 - the Society's annual statement on corporate governance
 - statements made concerning internal controls and risk management
2. review the integrity of the annual regulatory return (FSA Return for Friendly Societies) before submission to the C of M or approve them if so authorised by the C of M to do so
 3. review the Financial Condition Report and Individual Capital Assessment as produced by the Actuarial Function Holder.
 4. monitor any formal announcements relating to the Society's financial performance.

With Profits

1. act in the role of With Profits Committee by reviewing the statement of Principles and Practices for Financial Management (PPFM) for each with profits fund and report on its suitability to the C of M.
2. consider if each with profits fund has been managed in accordance with its PPFM statement and report to the C of M.

Other

1. review the risks and controls relating to information systems, including security.
2. review at least once each year the terms of reference of the Risk & Audit Committee to ensure their ongoing effectiveness and make recommendations to C of M.
3. periodically review the terms of reference of all sub committees to ensure that appropriate consideration is given to them by risk management so that there are no gaps, overlap or uncertainty as to where responsibility for monitoring specific risks lies.
4. review risks and controls designed to mitigate financial crime (including money laundering) and monitor and report as appropriate.
5. perform periodic review of complaints and report as appropriate.
6. Chair of Risk & Audit Committee to act as independent contact for staff to contact in line with the Whistleblowing Policy as explained in the Employee Handbook.
7. consider other topics, as defined by the C of M.