

1. GENERAL

The Audit and Risk Committee is a sub-committee of the Board of Directors (“the Board”) of the Ancient Order of Foresters Friendly Society Ltd (“the Society”). The primary role of the Committee is to consider and agree with the Board the framework or broad policies for performance reporting, auditing and risk management of the Society and, on behalf of the Board, to monitor and challenge the operation of these. The Committee conducts its business in accordance with the Rules of the Society and the relevant law and requirements of the Financial Services Authority and is accountable to the Board.

2. MISSION, VALUES & OBJECTIVES OF THE SOCIETY

The Society has adopted a Mission and Values statement and business objectives. The Audit & Risk Committee will endeavour to ensure that its decisions and actions support these aims.

3. MAIN FUNCTIONS OF THE AUDIT & RISK COMMITTEE

- 3.1. It is the responsibility of the Committee to assist the Board in fulfilling its mandated external reporting requirements. In respect to the external audit of the Report and Accounts and other mandated reporting requirements the Committee will:
 - 3.1.1. receive the report of the Finance Director about accounting, auditing and other matters relevant to the role and responsibilities of the Committee at least quarterly;
 - 3.1.2. oversee the process for selecting the external auditors and make appropriate recommendations to the Board for the Society’s members to consider at the Annual General Meeting;
 - 3.1.3. assess the independence and objectivity of the external auditors, ensuring that they rotate their key personnel appropriately;

- 3.1.4. recommend the audit fee to the Board and pre-approve any services and fees in respect of non-audit services provided by the auditors to ensure that the provision of such services does not impair their independence or objectivity;
 - 3.1.5. review with the auditors, before their audit commences, the prior year's work, the nature and scope of the audit and to assess the auditors' quality control and ability to respond to changes in regulation and other requirements;
 - 3.1.6. review and consider management's response to any letters, reports and recommendations from the external auditor;
 - 3.1.7. monitor the effectiveness of the external auditor;
 - 3.1.8. meet with the external auditor without management present at least semi-annually.
- 3.2. The responsibilities of the Committee in respect to the Annual Report and Accounts and other reporting requirements include to review, and challenge where necessary, the actions and judgements of management, before submission to the Board, paying particular attention to:
- 3.2.1. critical accounting policies and practices, and any changes in these;
 - 3.2.2. decisions requiring a major element of judgement;
 - 3.2.3. the extent to which the financial statements are affected by any unusual transactions and how these are disclosed;
 - 3.2.4. the relevance and clarity of disclosures;
 - 3.2.5. significant adjustments resulting from the audit;
 - 3.2.6. the going concern assumption;
 - 3.2.7. compliance with accounting standards, law and regulatory requirements;
 - 3.2.8. the quality and relevance of any non-financial performance reporting.
- 3.3. The responsibility of the Committee in respect to internal auditing is to assist the Board in ensuring that the Society's internal auditing processes are executed as effectively as possible. The Committee will:
- 3.3.1. oversee the process for selecting those who perform internal audits and make recommendations on their appointment to the Board;

- 3.3.2. where some or all of the internal audit work is outsourced:
 - 3.3.2.1. oversee the process for selecting the service provider and recommending their appointment to the Board;
 - 3.3.2.2. recommend their audit fees to the Board;
 - 3.3.2.3. pre-approve any services and fees in respect of non-audit services provided by the outsourcer to ensure that the provision of non-audit services does not impair their independence or objectivity;
 - 3.3.2.4. assess the ongoing independence and objectivity of the internal auditors, ensuring that key personnel are rotated where appropriately;

- 3.3.3. where internal audit work is performed by employees of the Society, ensure that the persons performing the audits have appropriate skills and experience and maintain their skills with adequate training;
- 3.3.4. review internal audit programmes and consider with the auditors the prior year's audit work, the key and relevant risks and ensure that the planned audit programme is appropriate;
- 3.3.5. assess the auditor's quality control and ability to respond to changes in regulation and other requirements;
- 3.3.6. ensure that operations, Courts and other relevant non-financial processes and activities receive an appropriate standard of audit;
- 3.3.7. review and consider any letters, reports and recommendations from the internal auditors and management's response to these;
- 3.3.8. monitor the effectiveness of the Society's internal audit processes and those who perform these;
- 3.3.9. meet with the internal auditors without management present at least semi-annually;
- 3.3.10. consider at least annually if the internal audit function is resourced adequately and has appropriate standing within the Society.

- 3.4. The responsibility of the Committee in respect to risk management is to provide the Board assurance that the Society's operational, financial and other risks are identified, recorded, monitored and managed effectively. The Committee will:

- 3.4.1. receive and review the reports of the Head of Risk;
- 3.4.2. monitor and challenge the risk information received, including whether all key risks have been identified and are being managed to an acceptable and proportionate level;
- 3.4.3. review and recommend to the Board actions on significant risk issues, trends, practices and loss events, whether realised or potential, that have implications for the Society;
- 3.4.4. monitor and challenge the implementation and effectiveness of, and compliance with, approved risk policies and standards on risk and the resultant action in respect of policy breaches;
- 3.4.5. monitor the effectiveness of the Society's overall risk management framework through ongoing review and independent assurance by the auditors;
- 3.4.6. ensure material risk incidents are investigated in a timely manner and monitor remedial plans and implementations;
- 3.4.7. review the Risk Register at least semi-annually and whenever there is a significant change in structure, business environment or when risks may be affected by other material factors and make recommendations to the Board;
- 3.4.8. review the risk appetite at least annually and recommend the level of risk to the Board for approval;
- 3.4.9. review annually and recommend to the Board the overall risk management, control and exception reporting framework and the processes the Society uses to identify, record, assess and manage risks;
- 3.4.10. review annually and recommend to the Board the Society's policies in relation to risk including strategic, investment, operational, market, reputational and financial risks;
- 3.4.11. approve the appointment and termination of appointment of the Head of Risk;
- 3.4.12. review annually the Terms of Reference of the other committees which are part of the Society's risk management framework including the Risk Management Executive Committee (RMEC) and the Risk and Internal Control Committee (RICC);

- 3.4.13. review at least annually how the maintenance of capital and reserves are managed so as to ensure that the Society's processes are structured as optimally as possible to meet regulatory and risk benchmarks;
- 3.4.14. review the Risk Report in the Annual Report and Accounts and recommend its acceptance to the Board;
- 3.5. Other responsibilities of the Committee are to:
 - 3.5.1. review the Society's policies and procedures for handling allegations from whistleblowers, monitor for whistleblowing and ensure that the response is appropriate and proportional;
 - 3.5.2. consider the effectiveness of any relevant internal control processes which are not addressed elsewhere (e.g. anti-money laundering);
 - 3.5.3. report to the Board following each Committee meeting on the matters which the Committee has considered;
 - 3.5.4. report as required by the Board in regards to material compliance, control or governance weaknesses and progress on agreed actions;
 - 3.5.5. review the sections of the Annual Report and Accounts of the Society which address Reporting, Governance and Risk.
 - 3.5.6. The Committee shall review its own performance at least annually, develop an improvement plan and incorporate this into its deliberations and plans.

4. STANDARDS, MONITORING & ADVICE

- 4.1 It is the responsibility of the Committee to monitor that in regards to auditing, performance reporting, risk management and governance the Society follows appropriate good practice as laid down in the Society's policies, the law and regulation and relevant codes of practice.
- 4.2 The Committee should take due regard of market conditions, regulatory guidelines, applicable legislation and the Society's business needs in its deliberations.
- 4.3 The Committee should take into account the recommendations of the Chief Executive and other members of management;

- 4.4 Where necessary in order to perform its duties, the Committee may seek any information which it requires from any employee of the Society.
- 4.5 The Committee may obtain at the Society's reasonable expense, outside legal advice or other professional advice to assist it in fulfilling its responsibilities.
- 4.6 The Committee will adhere to the Society's Conflict of Interest Policy. When there is any agenda item which poses a conflict of interest for any Committee member that member should declare the interest. If the conflict is clear and substantial that member should withdraw from the meeting. All declarations of conflict of interest shall be recorded in the minutes.

5.0 MEMBERSHIP

- 5.1 The Committee shall consist of at least three (3) members all of whom shall be Independent, Non-Executive Directors who are appointed by the Board upon the recommendation of the Nominations Committee to serve for a period of one (1) year. No one should serve more than six (6) years on the Committee.
- 5.2 At least one member of the Committee shall have recent and relevant financial experience and the Committee as a whole shall encompass sufficient skills and experience to perform its role.
- 5.3 The Chairman of the Committee shall be appointed by the Board. In his absence the members present shall elect one of their number to chair the meeting.
- 5.4 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive, staff, auditors and advisors may be invited to attend the whole or part of the meeting if appropriate.
- 5.5 The Company Secretary or their nominee shall act as Secretary to the Committee.

6.0 QUORUM

The quorum necessary for the transaction of any business shall be two (2) 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.

7.0 FREQUENCY OF MEETINGS

The Committee shall meet at least quarterly and at such other times as the Chairman of the Committee or a majority of its members shall require.

8.0 NOTICE OF MEETINGS

8.1 Meetings of the Committee shall be summoned by the Secretary to the Committee at the request of its Chairman or one of the other members of the Committee.

8.2 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, any other person required to attend and all other Directors, no later than fifteen (15) 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 or as soon as practicable.

9.0 MINUTES OF MEETINGS

9.1 The Secretary shall minute the proceedings and resolutions of all Committee meetings including names of attendees and of any apologies received.

9.2 Minutes of the meeting shall be prepared and promptly circulated to all Committee members and other attendees.

10.0 ANNUAL GENERAL MEETING

The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any questions about the responsibilities and work of the Committee and the actions which it has taken over the past year.

11.0 REPORTING TO MEMBERS

11.1 The Annual Report and Accounts of the Society will contain a separate report addressing the frequency and attendance by Committee members at Committee meetings;

11.2 The Annual Report and Accounts shall contain a report about the work of the Committee.

12.0 URGENT DECISIONS

- 12.1** Should decisions be required that cannot be deferred to the next scheduled meeting, the Chairman of the Committee shall contact the members of the Committee where possible and with a quorate as set out in Clause 6 make any decisions and take any agreed actions.
- 12.2** Any decisions made in this way must be reported at the next scheduled meeting and the consultation and expressed views of the Committee members recorded in the minutes.

Approved by the Board February 2010