

SCHOOLTEACHERS FRIENDLY SOCIETY

TERMS OF REFERENCE FOR THE AUDIT, RISK and COMPLIANCE (ARC) COMMITTEE

1. Responsibilities

(i) **Purpose**

The underlying purpose of the Audit, Risk and Compliance (“ARC”) Committee is to monitor on behalf of the Board of Management the integrity of the financial statements of the Society; to review the Society’s systems of internal control and risk management, through supervision of the quality, independence and effectiveness of:

- Internal Audit
- Compliance
- Risk Assessment and Reporting Function
- External Audit

This is done by:

- examining the manner in which management identifies and assesses risks and seeks to control their impacts;
- monitoring the operational effectiveness of policies and procedures for internal systems and control;
- reviewing arrangements established by management for compliance with regulatory and financial reporting requirements;
- monitoring and reviewing on behalf of the Board of Management the application of the accounting principles, policies and standards used by the Society (and any subsidiary companies) in maintaining and producing statutory accounts and financial reports;
- Reviewing the adequacy and effectiveness of arrangements to prevent and detect financial crime.

(ii) **Duties**

To meet its purpose, the ARC Committee shall:

- Consider the appointment of the external auditors, the audit fee, and any questions of resignation or dismissal and make the appropriate recommendations to the Board of Management. In addition, it shall develop and apply a formal policy with regard to non-audit work which may be carried out by the external auditors both in relation to the significance to the auditors and in relation to the Society’s total expenditure on consultancy;
- Review at least once each year the independence, quality of work and performance of the external auditors;

- Review:
 - (a) the approach, nature and scope of the Society's internal audit, risk management and compliance plans; and
 - (b) the structure and operation of the Society's internal audit, risk management and compliance functions.
- Ensure co-ordination and co-operation between the external and internal auditors is maximised;
- Review with the external auditors the approach, the nature and scope of the audit before it commences and ensure co-ordination where more than one audit firm is involved;
- Review the annual financial statements before submission to the Board of Management, focusing particularly on:
 - (a) non-compliance with, or material variance from current accounting policies and standards;
 - (b) changes to accounting policies and standards;
 - (c) any issues or financial effects arising;
 - (d) significant adjustments resulting from the audit;
 - (f) compliance with legal requirements;
 - (g) compliance with the Combined Code or other appropriate guidance on corporate governance;
- Discuss issues arising from the interim and final audits, and any matters the external auditors may wish to discuss (in the absence of management where necessary);
- Ensure appropriate account is taken of all audit issues and that the Society responds to weaknesses and issues highlighted in both internal and external audit reports;
- Review the Society's statement on internal control systems and make appropriate recommendations to the Board of Management;
- Be satisfied that the Society's policy on business ethics and compliance is being followed and that the control procedures are satisfactory;
- Devise a Risk Management Framework for the Society which reduces the potential of internal and external events having a detrimental affect on the Society's business objectives;
- Act as custodians of the Risk Management Framework and Risk Register;
- Embed the risk culture, appetite and process across the Society's operations;
- Provide the Board with assurance that all elements of the Risk Management Framework are 'fit for purpose' and operating effectively;
- Recommend high level risk policy and changes to policy to the Board;
- Oversee the identification and management of the business risks and allocation of resources commensurate with those risks;

- Ensure effective risk consideration and evaluation (in relation to both scope and content) of the Audit and Risk Registers;
- Ensure risk is owned at the correct level within the Society, in line with risk exposures;
- Ensure risk and control reporting to the Board is holistic, consistent and represents the views of the Committee and advisers;
- Ensure consideration, development and review of the Society's risk appetite statements;
- Ensure progress is made against any agreed and documented risk mitigation actions and plans;
- Ensure suitable on-going monitoring and challenge in relation to the risk information which is provided by the advisers;
- Undertake responsibility for ad-hoc projects which are delegated by the Board;
- Review the Society's Internal Audit, risk management and compliance processes and the reports of each function;
- Consider the findings of major internal investigations into control weaknesses, fraud or misconduct and management's response (in the absence of management where necessary);
- Consider the policies, procedures, systems and controls in place to prevent and where necessary detect and respond to instances of financial crime.

2. **Whistleblowing**

- The Committee shall review the Society's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

3. **Membership**

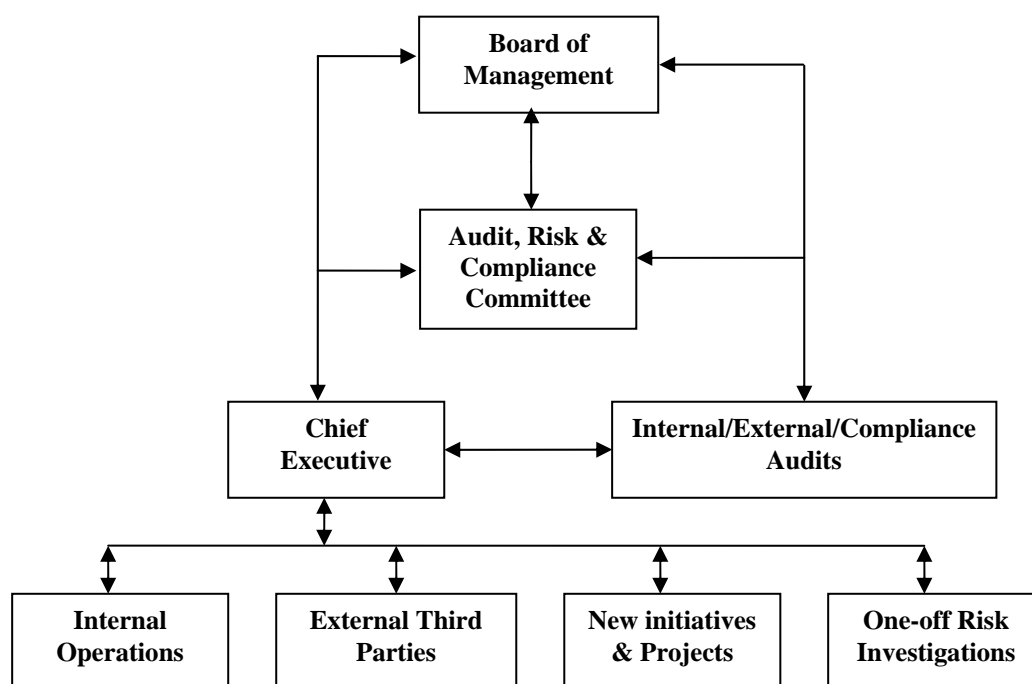
- The ARC Committee shall be appointed by the Board of Management and shall consist of not less than three independent non-executive directors possessing appropriate experience and skills;
- The chairman shall be appointed by the Board of Management;
- The Chairman of the Board of Management shall be an ex-officio member of the ARC Committee;
- A quorum shall be any three members;
- In the absence of the Committee Chairman and/or appointed deputy, the remaining members present shall elect one of themselves to chair the meeting. The Chairman of the Board of Management shall not be Chairman of the Committee.

4. **Secretary**

- The Chief Executive or their nominee shall act as the Secretary of the Committee.

5. Structure

The effective management of Audit, Risk and Compliance within the Society is achieved through the following structure:-



6. Attendance

- Only members of the Committee have the right to attend Committee meetings. However, all members of the Board of Management may attend any Committee meeting in an observer and/or contributor capacity;
- The Chief Executive will normally attend all meetings. Other members of the Board of Management, the Internal and External Auditors will attend as required;
- The Internal and/or the External Auditors shall have the right to meet with the ARC Committee without executive directors present;
- The Committee may, under the direction of the Chairman convene a separate meeting, or may allocate part of a meeting for themselves, without other attendees being present.

7. Frequency of Meetings

- The ARC Committee will meet at least four times each year and approximately one month before each Board meeting to evaluate and update the Audit and Risk Registers. The Internal and/or the External auditors or any member of the committee may request more frequent meetings if considered necessary.

8. Notice of Meetings

- Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members;
- 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 non-executive board members, approximately 5 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.

9. Minutes of Meetings

- The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance;
- The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly;
- Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the board, unless a conflict of interest exists.

10. Annual General Meeting

- The Chairman of the Committee shall attend the Annual General Meeting and be prepared to respond to any questions on the Committee's activities.

11. Authority

- The ARC Committee may investigate any activity within its terms of reference. It may set priorities for internal audit work. It may seek any information it requires from any employee and all employees shall co-operate with its requests;
- The ARC Committee may direct either the external or internal auditors to undertake or commission investigations on its behalf and to follow up on any suspicions of fraud;
- The ARC Committee may obtain outside professional advice and, if necessary, invite outsiders with relevant experience to attend the meetings;
- The Internal Auditor shall have direct access to all members of the ARC Committee to preserve the independence of the position.

12. Reporting Procedures

- Minutes of meetings of the ARC Committee shall be circulated to all members of the Board of Management, the Internal and External auditors and such other attendees of the meetings as the Chairman of the ARC Committee shall direct;

- The output from each ARC Committee meeting will be an updated Audit and Risk Registers;
- The updated Audit and Risk Registers will be circulated to the Board in sufficient time for the next Board meeting after the quarter end;
- At the next Board meeting after each quarter end, the Chairman of the Committee will provide the Board with an update of any additions or movements to the Audit and Risk Registers, together with a progress update on any planned mitigation actions and plans;
- The output from the Board meeting will be the Board Minutes.

13. Other

- The Committee shall, at least once a year, under the direction of the Committee Chairman, review its own performance and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval;
- Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.