

Kingston Unity Friendly Society Audit Committee Terms of Reference

Adopted by the Board on

7th December 2019

1. Introduction

The Board of Kingston Unity Friendly Society (“Board”) resolved to establish a sub-committee of the Board to be known as the Audit Committee (the “Committee”) to assist the Board to meet its obligations under relevant legislation, and regulatory and industry association rules, guidance and codes, including (without limitation) the Friendly Societies Act 1992, the Financial Services and Markets Act 2000, the Financial Services Act 2012, the Solvency II Directive (including the ‘Prudent Person’ principle), the PRA and FCA’s Principles and Rules, Financial Reporting Standard FRS 102 and 103 and International Standards on Auditing (UK). The Committee reports to the Board and must conduct its business in accordance with the Society’s rules and these terms of reference.

The Committee provides a forum for oversight of the operations of Kingston Unity Friendly Society and any subsidiary companies it may have from time to time (together, the “Society”) relating to the purposes set out below.

2. Purposes

The main purposes of the Committee are to:

- assist the Board to monitor and review the Society’s financial reporting process and outputs so as to ensure the balance, transparency and integrity of published financial information and the process for monitoring compliance with laws and regulations affecting financial reporting as set out in the introduction above;
- oversee the Society’s internal controls, risk management systems and whistleblowing provision;
- determine and set the overall remit of the internal audit function, and commission and receive reports from the internal auditor, review findings and ensure that corrective actions proposed by management are appropriate and implemented on a timely basis;
- review the effectiveness and independence of the external and internal audit functions;
- make recommendations relating to the appointment, re-appointment and removal of the external auditor to the Board for it to be put to Society members for their approval in the Annual General Meeting in relation;
- directly oversee and authorise the appointment, re-appointment and removal of the internal auditor; and
- report to the Board on audit findings, identifying matters in respect of which the Committee considers action or improvement is required, and making recommendations as to the steps to be taken.

3. Objectives and Responsibilities

The Committee's objectives and responsibilities to fulfil its purposes are particularised below:

Reviewing Financial Reports

- The Committee shall, taking into account the external auditor's view, consider whether appropriate accounting policies have been adopted and that, where necessary, appropriate estimates and judgements have been made;
- to review the annual financial statements and any other financial reports (such as the Financial Condition Report), in consultation with the external auditor, Chief Actuary and With Profits Actuary (as required) before submission to the Board, or approve them if authorised by the Board to do so, focusing particularly on: (i) any changes in accounting policies and practices; (ii) major judgemental areas; (iii) significant adjustments or other errors identified during the audit process, obtaining (where relevant) explanations from management and, where necessary, the external auditors as to why certain errors might remain unadjusted; (iv) the going concern assumption; and (v) compliance with accounting standards and relevant legal and regulatory requirements and guidance; and
- to monitor any formal announcements relating to the Society's financial performance.

External Audit Function

- The Committee shall, taking into account the external auditor's view, consider whether appropriate accounting policies have been adopted and that, where necessary, appropriate estimates and judgements have been made;
- to review the annual financial statements and any other financial reports (such as the Financial Condition Report), in consultation with the external auditor, Chief Actuary and With Profits Actuary (as required) before submission to the Board, or approve them if authorised by the Board to do so, focusing particularly on: (i) any changes in accounting policies and practices; (ii) major judgemental areas; (iii) significant adjustments or other errors identified during the audit process, obtaining (where relevant) explanations from management and, where necessary, the external auditors as to why certain errors might remain unadjusted; (iv) the going concern assumption; and (v) compliance with accounting standards and relevant legal and regulatory requirements and guidance; and
- to monitor any formal announcements relating to the Society's financial performance.
- to directly oversee the appointment, re-appointment and removal of the external auditor and make appropriate recommendations to the Board accordingly (which would then be subject to the approval of Society members in the Annual General Meeting), conducting a review annually with due regard to their effectiveness, objectivity, independence, value for money and in accordance with Society policy and relevant UK professional and regulatory standards and requirements;

External Audit Function Cont...

- to directly oversee the appointment, re-appointment and removal of the external auditor and make appropriate recommendations to the Board accordingly (which would then be subject to the approval of Society members in the Annual General Meeting), conducting a review annually with due regard to their effectiveness, objectivity, independence, value for money and in accordance with Society policy and relevant UK professional and regulatory standards and requirements;
- to consult with the external auditors before the audit commences to discuss the scope of the audit and agree an External Audit Plan to ensure that reporting time lines can be adhered to, and monitor the progress of the external audit against this;
- to approve the terms of engagement of the external auditor in respect of audit services provided and of the engagement letter issued by the external auditor at the start of each audit, ensuring that, (where the external auditor provided audit services the previous year) it has been updated to reflect changes in circumstances arising since the previous year, and, if not satisfied as to its adequacy, arrange for additional work to be undertaken;
- to decide on the remuneration to be paid to the external auditor in respect of audit services provided, having satisfied itself that the level of fee payable is appropriate and that an effective, high quality, external audit can be conducted for such a fee;
- to undertake a post-audit review at the end of each annual audit cycle, considering: (i) whether the auditor has met the agreed External Audit Plan and understand the reasons for any deviations, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks; (ii) the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgments identified and in responding to questions from the Committee, and in their commentary (where appropriate) on the systems of internal control; (iii) feedback about the conduct of the audit from key management involved; (iv) the external auditor's management letter in order to assess whether it is based on a good understanding of the Society's business; and (v) management's response to the external auditor's management letter to determine whether recommendations have been accepted and acted upon, and, if not, the reasons why not;
- to seek reassurance that the external auditors and their staff have no financial, business, employment or family and other personal relationship with the Society which could adversely affect the external auditor's independence and objectivity, taking account of relevant ethical standards for auditors;
- to seek from the external auditors, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding the rotation of audit partners and staff;
- in the event that the external auditor resigns, to investigate the issues giving rise to such resignation and consider whether any action is required; and
- to challenge any proposal to use external auditors for non-audit work given the Public Interest Entity status of the Society and maintenance of their independence.

Internal Audit Function

- To determine and keep under review the overall remit of the internal audit function and audit programme with due regard to areas: (i) suggested by the Board and other Board Committees; (ii) in the Society's identified risk universe; (iii) identified as being of high or emerging risk; (iv) of significant business or regulatory change; and (v) of perceived weakness in the overall systems and operation of control in the Society;
- to ensure that internal audit work is co-ordinated with any compliance monitoring activity to ensure effective use of resources in an appropriately targeted fashion;
- to ensure that the designated Head of Internal Audit function-holder has direct access to the Chairman of the Board and to the Committee, and is accountable to the Committee;
- to oversee the development of each internal audit plan and any relevant terms of engagement and approve their respective contents;
- to review and challenge internal audit reports, ensuring that corrective actions proposed by management are appropriate, recorded and implemented on a timely basis;
- to directly oversee and authorise the appointment, re-appointment and removal of the internal auditors, conducting a review annually with due regard to their effectiveness, objectivity, independence, value for money and in accordance with Society policy and relevant UK professional and regulatory standards and requirements; and
- to decide on the remuneration to be paid to the internal auditors in respect of the internal audit programme, having satisfied itself that the level of fee payable is appropriate and that an effective, high quality, internal audit programme can be conducted for such a fee.

Review of Internal Controls

- To consider any instances of fraudulent activity and compliance breaches, review reports from management on the same and report back to the Board on its assessment of the seriousness and impact of such instances and make recommendations to avoid repeats;
- to determine, keep under review and ensure the effective operation of the Society's whistle-blowing process, and consider any matters raised through it;
- to review other financial documents when requested to do so by the Board and provide feedback or recommendations (as appropriate); and
- to review and assess the adequacy of the scope and effectiveness of the Society's internal systems and controls generally (and particularly the risk of management override of such controls) in consultation with the Society's Governance, Risk and Compliance Manager and make recommendations to the Board accordingly.

Relationship with Other Board Committees

- To, where appropriate, refer to other Board Committees relevant matters it becomes aware of (particularly, but without limitation, the Risk Committee) and maintain effective dialogue; and
- to consider recommendations from the Board and other Board Committees on the priorities for the Society's Internal Audit Plan.

Other Responsibilities

- To monitor developing industry trends and changes in law and regulation relating to the purposes above and to assess the impact (if any) on the Society's control framework, audit process and financial reporting; and
- to consider other topics associated with the purposes above as requested by the Board.

Reporting Procedures

- To prepare a report on the Committee's activities and practices annually for the Annual Report and Accounts, including an explanation of how the Committee has assessed the effectiveness of the external audit process and of the approach taken to the appointment or reappointment of the external auditor, in order that members can understand why it recommended either to reappoint or to change the external auditors, together with information on the length of tenure of the current audit firm, when a tender was last conducted and summarise any contractual obligations that acted to restrict the Committee's choice of external auditors; and
- to prepare minutes of the meetings of the Committee (to be presented to the next Committee meeting for formal adoption) and to make these available to all members of the Board.

Self Appraisal

- To review its own performance, constitution and terms of reference, at least annually, to ensure it is operating effectively and recommend any changes it considers necessary to the Board for approval; and
- to provide a written report to the Board on the Committee's effectiveness and activities at least annually.

4. Composition

The Committee shall be comprised of four Non-Executive Directors (“NED”) (one of which to be the Committee Chairman), at least three of whom shall be independent. The CEO may attend by invitation only.

At least one Committee member must possess recent and relevant financial experience, and the Committee as a whole must have competence relevant to the ‘with-profits’ life sector.

5. Meetings

Frequency: Meetings shall be held when necessary but at least four times a year.

Chairmanship: The Chairman of the Committee (as determined by the Board) shall chair meetings. In the case of the Chairman’s absence, the members present will elect one of their number to chair the meeting.

Voting: On any vote of the Committee, the majority shall prevail, with the Chairman holding the casting vote.

Permitted Attendees: The Committee may invite other individuals (e.g., auditors, external advisors, other NEDs and the CEO) to attend meetings to observe, report, answer (or ask) questions or make presentations, as it deems necessary.

Notice and Agenda: Notice of meeting and an agenda (together with any other supporting papers) shall be circulated to all Committee members at least one week in advance.

Quorum: Two members, both of whom must be a NED, must be present before a meeting is to be considered quorate. Committee members may be present in person or through any other means of communication but to count towards a quorum, members must be able, fully, to hear and participate in the Committee’s proceedings. No business can be conducted in the absence of a quorum. A meeting shall terminate as soon as it becomes inquorate.

Conflicts of Interest: The Chairman shall ascertain any conflicts of interest of members of the Committee at the start of each meeting in relation to the matters to be discussed and record accordingly in the minutes.

6. Authority

The Committee may investigate any activity within its terms of reference. In doing so it may obtain, at the Society’s expense, external professional advice as appropriate in fulfilling its duties, and is authorised to seek any information it requires from any employee and to direct employees to co-operate with any request it makes.

7. Escalation

Any matters requiring escalation shall be escalated to the Board.

8. Delegated Matters

Any specific responsibilities or permissions which are delegated to the Committee by the Board shall be set out in the relevant appendix to the current Board Handbook.



Kingston Unity is a trading name of Kingston Unity Friendly Society Limited, 9 Navigation Court, Calder Park, Wakefield, WF2 7BJ.
The Society is registered and incorporated under the Friendly Societies Act 1992, registered number 775F and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, firm reference number 110056.