

AUDIT & RISK COMMITTEE (ARC)

TERMS OF REFERENCE

1. PURPOSE

The purpose of the Audit & Risk Committee ('ARC'), on behalf of the CII Board, is to ensure that the CII Group operates effective processes of financial reporting and control, and of risk management, so that the CII Board and subsidiary Boards are equipped to carry out their governance responsibilities.

2. AUTHORITY

- 2.1 The ARC is a Committee of the CII Board from which it derives its authority, and to which it regularly reports.
- 2.2 The Committee has delegated authority from the Board in respect of the functions and powers set out in the Terms of Reference. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 2.3 The Committee is authorised to:
- 2.3.1 seek any information it requires from any employee of the CII in order to perform its duties.
 - 2.3.2 seek reports from such of the CII's Committees as it requires.
 - 2.3.3 to call any employee or officer to be questioned at a meeting of the Committee as and when required.
 - 2.3.4 to obtain, at the CII's expense, outside legal or other professional advice on any matters within its terms of reference.
 - 2.3.5 have access to sufficient resources to undertake its duties including access to the Corporate Governance team for assistance as required.
- 2.4 The Committee shall carry out the duties below in relation to the CII, the CII's subsidiary undertakings and the CII Group as a whole, as appropriate and will work collaboratively with colleagues across subsidiary entities to ensure a holistic approach to Audit and Risk matters that secures coherence across the Group.

3. DUTIES

3.1 *Financial reporting*

The Committee shall:

- a) monitor the integrity of the consolidated financial statements, including the annual and any interim reports, reviewing significant financial reporting judgements contained in them, taking into account:
- The consistency of, and any changes to accounting policies, both on a year on year basis and across the CII Group.
 - The methods used to account for significant or unusual transactions where different approaches are possible.



- Whether the CII has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor.
- The clarity of disclosure in the financial reports and the context in which statements are made.
- All material information presented with the financial statements such as the operating and financial review and the corporate governance statement, in so far as it relates to the audit and risk management of the CII Group.
- Whether the annual report and financial statements, taken as a whole, are fair, balanced and understandable, and provides the information necessary for stakeholders to assess the CII Group's position and performance, business model and strategy.

3.2 Internal Controls and Risk Management Systems

The Committee shall:

- a) review the CII's risk policy which sets out the CII's risk appetite and recommend for approval to the Board.
- b) monitor and keep under review the effectiveness of the internal controls and risk management systems including how the risks identified by the Executive Leadership Team are monitored and controlled.
- c) consider the adequacy of the assurance provided by the Executive Leadership Team over key risks and controls.
- d) receive a bi-annual report on the adequacy, design, and effectiveness of the CII Group's risk management function, including the adequacy of resources in proportion to its current and expected size and complexity.
- e) consider and advise the Chief Executive Officer and the Board on the CII Group's risk profile, risk appetite, tolerance, and strategy of the business plan taking account of the current and prospective social, political, and macro-economic environments. The Risk Director shall attend all meetings of the Committee to discuss all of the above, including the effectiveness of the process and control systems.
- f) endorse a programme of testing and reviewing the risk mitigations and controls that underpin the CII Group's assessment of residual risk compared to risk appetite and risk tolerance.
- g) have oversight of treasury activities in implementing treasury policies approved by the Board, including treasury internal controls.
- h) consider and review the CII's approach to discharging their legal and regulatory liabilities under the defined contribution (Stakeholder) staff pension scheme, requesting such evidence, and making such recommendations to the Board as the Committee sees fit.
- i) review the CII's current risk exposure and capability to identify new and emerging risks.



- j) consider a report from the Executive Leadership Team on major risks that may materialise in the future, particularly as a consequence of adverse changes to the economic, social, regulatory, political or technology environment, or as unintended consequence of new products or services being offered or developed by the CII in line with its strategy.
- k) monitor and review the standards of risk management and internal control, including the processes and procedures for ensuring that material business risks are properly identified and managed, the effectiveness of internal control, financial reporting, accounting policies and procedures, and the CII's statements on internal controls before they are agreed by the Board for inclusion in the annual report and financial statements.
- l) review the key terms of material contracts of more than one year's duration before they are considered by the Board.
- m) advise the Nominations and Remunerations Committee on the risk weightings to be applied to employee performance objectives.
- n) make recommendations as to how a supportive risk culture can be embedded and maintained throughout the CII.
- o) to advise, support and act as a sounding board to the Chief Executive Officer on any professional matters relating to risk and internal control.

3.3 ***Oversight of Investment Managers***

The Committee shall:

- a) oversee the investment manager relationship.
- b) receive a quarterly paper from the investment managers on the performance of the investment funds, and a presentation from the investment managers on performance every 6 months.
- c) monitor investment manager performance against agreed parameters and take appropriate action within a reasonable time frame.
- d) ensure that the performance of the investment managers is subject to an in-depth review as required and re-tendering is considered every 3-5 years subject to performance metrics not being met.
- e) put recommendations to the Board in respect of the appointment or re-appointment of investment managers including relevant fees.

3.4 ***Compliance, Whistleblowing and Fraud***

The Committee shall annually review the adequacy and effectiveness of:

- a) the arrangements for CII 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.

- b) the CII's procedures for detecting fraud.
- c) the CII's systems and controls for prevention of bribery.

The Committee shall receive:

- a) regular reports on CII's compliance activity, anti-fraud activity and whistleblowing.
- b) reports of non-compliance regarding the systems and controls for detecting fraud and bribery as and when instances occur.

3.5 **External Audit**

The Committee shall:

- a) consider and make recommendations to the Board, following consultation with the Executive Leadership Team, to be put to Members for approval at the AGM, in relation to the appointment, re-appointment and removal of the external auditor.
- b) oversee the selection process for new auditors and if an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required.
- c) Consider the appointment of the CII Group's external auditor including, but not limited to:
 - making recommendations as to remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted.
 - approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit.
 - assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services.
 - monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the CII compared to the overall fee income of the firm, office and partner and other related requirements.
 - assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures.
- d) meet regularly with the external auditor, including at least once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without Executive Team being present, to discuss their remit and any issues arising from the audit.
- e) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
- f) review the findings of the audit with the external auditor. This shall include but not be limited to, the following:



- a discussion of any major issues which arose during the audit.
 - any accounting and audit judgments.
 - levels of errors identified during the audit.
- g) review the effectiveness of the audit.
- h) review any representation letter(s) requested by the external auditor before they are signed by the Board.
- i) review the management letter and the CII's response to the auditor's findings and recommendations.
- j) develop and implement a policy on the supply of consultancy services or a material nature and especially non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

3.6 **Internal Audit**

The Committee shall:

- a) oversee the development, implementation, and ongoing performance of the internal audit function of the CII Group.
- b) recommend to the Board the appointment or re-appointment of the internal auditor and relevant fees.
- c) approve the internal audit plan, ensuring it aligns to business risks and the organisational strategy.
- d) receive regular reports on the work carried out by the internal auditors and the response to any issues identified or recommendations arising from the internal audit.
- e) ensure that the performance of the internal auditors is subject to an in-depth review as required and re-tendering is considered every 3-5 years subject to performance.

4. **REPORTING RESPONSIBILITIES**

- 4.1 The Committee Chair shall report to the Board on the proceedings of the Committee and how it discharges its responsibilities at each Board meeting.
- 4.3 The Committee shall report on its activities in the CII's Financial Statements.
- 4.4 The Chair of the Committee shall attend the AGM.
- 4.5 The Chair of the Committee shall respond to any questions regarding the Committee's activities received at the CII's AGM or elsewhere.
- 4.6 Where there is a disagreement between the Committee and the Board, adequate time should be made available for discussion of the issue with a view to resolving the disagreement.



5. MEMBERSHIP

5.1 The Committee as a whole shall have the appropriate knowledge, skills and experience relevant to the Committee's remit. Specifically, the committee comprises of Members who represent the following skills:

- a Chair of the Committee who shall also be a Member of the CII Board and be appointed by the Board.
- at least one individual with recent financial experience.
- at least one individual with competence in accounting and/or auditing.
- at least one individual with competence in risk management practices
- a representative from the Local Institutes (LI)
- a representative from the Personal Finance Society Board.

It is acknowledged that individual members may represent more than one of the skills described above.

5.2 The Committee shall be made up of at least four but not more than eight members and shall include a member of the Local Institutes.

5.3 A majority of members shall be independent of the CII.

5.4 Only members of the Committee have the right to attend Committee meetings. Other individuals may be invited to attend for all or part of any meeting, as and when appropriate with agreement of the Chair.

5.5 A standing invitation is extended to the Chief Executive Officer, Executive Director – People and Resources, Risk and Compliance Director, and Governance Director who may advise the Committee and make representations on agenda matters.

5.6 The CII President, Deputy President, employees of the CII and any person who works for a firm which provides the CII with banking, insurance, financial investment, audit, or other professional services may not be appointed a member of the Committee.

5.7 A representative from the New Generation Programme may be invited to attend Committee meetings as an Observer with Chair approval.

Notwithstanding 5.6 above, the Committee may request the attendance of any other individual with relevant experience or expertise if it considers this necessary to exercise its functions.

5.9 The External Auditors will be invited to attend meetings of the Committee on a regular basis.

5.10 Members of the Committee shall be appointed by the Chair of the Audit and Risk Committee in line with processes set by the Nominations and Remuneration Committee.

5.11 Except for the LI Member, appointments to the Committee shall be for a term of



up to three years, which may be extended, subject to Board approval, for one further three-year period provided the member remains eligible throughout that period. The LI member shall be appointed for a term of up to three years subject to remaining a member of the LI during that time. The Board may fill a casual vacancy for the post of LI member at any time.

- 5.12 In the absence of the Committee Chair, the remaining members present shall elect one of their number to chair the meeting.
- 5.13 If any member of the Committee fails to attend three consecutive meetings without good cause, they may be removed from the Committee by the Chair, subject to Board approval.

6. MEETING ARRANGEMENTS

- 6.1 The Governance Director, or their nominee (with the approval of the CEO), shall act as the Secretary of the Committee.
- 6.2 The Committee shall meet at least four times a year, at appropriate times in the reporting and audit cycle and otherwise as required by the Chair.
- 6.3 Members may participate from any location and be considered present and counted in the quorum accordingly.
- 6.4 The quorum necessary for the transaction of business shall be one third of the total number on the Committee or three members, whichever is the greater. A duly convened meeting of the Committee (or equivalent), 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.
- 6.5 A private session of the Committee members may take place prior to the start or before the end of the full meeting with only members of the Committee present.
- 6.6 Outside the formal meetings, the Committee Chair will maintain a dialogue with key individuals involved in the CII's governance.
- 6.7 The Committee may transact business by email only where the subject of such business has undergone a committee-approved process. Any decision made via email shall be valid and effective as if it had been passed at a meeting of the Committee provided that details of the proposed business have been given in advance to each member, and a quorum of Committee members participates in the decision. All email approvals must be ratified at the next ARC meeting and recorded in the minutes.
- 6.8 The Committee will usually make decisions by consensus. Where a vote is considered necessary, it shall be determined by a simple majority with the Chair having a casting vote if needed.
- 6.9 Meetings of the Committee shall be convened by the Chair; the Secretary of the Committee; at the request of a majority of its members; or at the request of external auditors if they consider it necessary. 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 and

any other person required to attend, no later than five 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.

- 6.10 The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 6.11 Minutes of Committee meetings shall be circulated promptly to all members of the Committee.

7. REVIEW

The Committee shall, at least once a year, 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.

8. OTHER MATTERS

The Committee shall:

- a) be provided with appropriate and timely training, both in the form of an induction programme for new members and periodic training for all members as required.
- b) keep up to date and fully informed about the strategic issues, commercial and regulatory changes affecting the CII and the market in which it operates.
- c) consider key matters of their own initiative rather than solely relying on the work of the external auditor and the Executive Leadership Team, to satisfy themselves that the sources of assurance and information are sufficient and objective and/or to identify if there are gaps and how these should be addressed.
- d) give due consideration to laws and regulations, and where applicable the provisions of the UK Corporate Governance Code.
- e) note any significant pending legal actions against or by the CII and to note and monitor and to escalate to the CII Board any material breaches of compliance, regulations, or legislation.
- f) ensure that all legal and compliance obligations are met including any appropriate requirements in relation to bribery, money laundering and the Modern Slavery Act 2015.
- g) be available to advise the Board on any questions relating to the financial affairs of the CII on which advice might be sought.
- h) ensure that diversity and inclusion considerations are taken in account when carrying out all its duties and reflected in its decisions and recommendations ensuring that Equality Impact Assessments (EIAs) on related processes are undertaken by staff when required.
- i) the Committee may work and liaise with other Committees as it sees fit.



9. GLOSSARY

The following words shall have the meanings shown:

“CII Group” shall mean the CII and its associated and affiliated companies.

“Committee” shall mean the Audit and Risk Committee.

“Board” shall mean the CII’s governing Board.

“Executive Leadership Team” those members from time to time comprising the CII’s Executive Directors

“Independent” shall mean a person who has had no previous involvement with the Institute.