

Audit & Budget Committee

Terms of reference

Purpose

The purpose of the committee is to assist the board in fulfilling its oversight responsibilities for the following processes:

- financial reporting and budgeting;
- internal control and risk management;
- internal and external audit;
- monitoring compliance with applicable laws and regulations.

Membership

Members are appointed to the Audit & Budget Committee by the board. All members must be independent non executive directors of the Society and the board will select one of their number to be chairman of the committee. The committee shall consist of not less than three members and the quorum for any valid meeting will be two members.

Secretary

The Company Secretary will ordinarily be the secretary to the committee.

Attendance of meetings

Only members of the committee will be entitled to attend meetings, although others will attend at its invitation or direction.

At least once per year, the committee will meet with the Society's external auditors, and with the Society's outsourced internal audit function, without executive directors present.

Access

The outsourced internal audit function, the external auditors and the head of the compliance function will have confidential access to the chairman of the committee as and when required.

Frequency of meetings

Meetings will ordinarily be held four times per year, to coincide with key dates in the Society's financial and reporting cycles. Meeting agendas will be prepared and provided in advance to the committee members. Minutes will be prepared and distributed within two weeks following the meeting.

Authority

The committee is authorised by the board to conduct or authorise investigations into any matters within its scope of responsibility.

Duties and Responsibilities

The committee will carry out the following duties and responsibilities in respect of its remit:

Financial Reporting

Review, and challenge where necessary, the actions and judgments of management, in relation to the Society's financial statements, operating and financial review, interim financial reports, preliminary announcements and related formal statements before submission to, and approval by, the board and before clearance by the external auditors.

Particular attention will be paid to:

- significant accounting policies and practices and any changes to them;
- complex or unusual transactions and highly judgmental areas;
- recent professional or regulatory pronouncements and their impact upon the financial statements;
- the results of the external audit, including any difficulties encountered;
- the completeness of the annual financial statements, whether they are consistent with the information known to the committee members and whether they reflect appropriate accounting principles;
- all matters required to be communicated to the committee under generally accepted auditing standards;
- how management develops interim financial information and the nature and extent of the outsourced internal audit and external audit involvement.

Internal Controls

- Consider the scope, effectiveness and integrity of the Society's internal control and risk management systems.
- Consider the Society's procedures for detecting fraud and whistleblowing and ensure that arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial control, financial reporting, risk management or any other such matter.
- Receive and act appropriately upon reports on internal control issues submitted by the outsourced internal audit function, the compliance function or the external auditors.

Risk Management

- Review the periodic work on the determination of significant strategic and operational risks, and their management and control, carried out from time to time by senior management.
- Ensure that the processes in place to identify, manage and mitigate risks are robust.
- Receive quarterly reports from the Society's Risk Steering Group and monitor the activity being undertaken in relation to the management of risks.

Outsourced Internal Audit

- Ensure that a robust process is followed for the appointment of the firm providing the outsourced internal audit function and ensuring that the firm selected has the necessary resources, expertise and professionalism required for the role.
- Review, approve and monitor compliance with the plans submitted by the outsourced internal audit function.
- Ensure there are no unjustified restrictions or limitations on the role and remit of the outsourced internal audit function.
- Review the reports submitted by the outsourced internal audit function, together with management's responses to the findings and recommendations, and ensure that any required action is undertaken promptly and effectively.
- Conduct a periodic exercise to assess whether the outsourced internal audit function is more effective and beneficial to the Society than an in-house function.

External Audit

- Review the external auditors' proposed audit scope and approach, including coordination of effort with the outsourced internal audit function.
- Review the relationship with, and performance of, the external auditors and recommend to the board on the approval of the appointment, or discharge, of the external auditors.
- Review and confirm the independence of the external auditors by obtaining statements from them on their relationships with the Society, including the provision of the details of any non-audit services.
- On a regular basis, meet separately with the external auditors to consider any matters that the committee or the external auditors believe should be discussed privately.
- Approve the external audit fee and recommend acceptance to the board.

Compliance

- Review the effectiveness of the systems, processes and plans designed to monitor and report upon compliance with laws and regulations - particularly in relation to the Society's membership of the Financial Services Authority.
- Review, approve and monitor compliance with the plans submitted by the Compliance function.
- Review the results of management's investigation into any instances of non-compliance.
- Review the effectiveness of the responses to the findings of any review or examination by the Financial Services Authority.
- Obtain regular updates from management regarding compliance matters.

Budgetary Responsibilities

- Review the processes established by management to prepare the Society's annual budget.
- Review the financial goals and targets set for the Society.
- Review and recommend to the board the Society's annual operating budget and its capital expenditure budget.
- Monitor the Society's performance as compared to budget.

Other Responsibilities

- Perform other activities as requested by the board.
- Institute and oversee special investigations as and when required.
- Review and assess the adequacy of these terms of reference on a regular basis, requesting board approval for any proposed changes.

Confirm annually to the board that all the responsibilities outlined in these terms of reference have been carried out.

Assist the board in its regular evaluation of the performance of the committee and of the individual members.

Approve a section for inclusion in the Society's Annual Report & Financial Statements summarising the committee's composition, its responsibilities and how they have been discharged.

Committee

- Moira Siddons (Chairman)
- Laurie Edmans
- Angela Burns



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