

VDS Audit Committee Terms of Reference

16 July 2024

1. Introduction

These Terms of Reference for the Audit Committee address the principal purpose and responsibilities that the Committee must discharge. There are corresponding documents describing the principal duties of the Board, Executive Committee, Risk & Compliance Committee, Nominations Committee, and Remuneration Committee.

Committee members provide entrepreneurial leadership and are collectively responsible for the long-term success of the Veterinary Defence Society Limited.

2. Purpose

The purpose of the Committee is to independently evaluate assurance from management, internal audit and external audit regarding the Society's financial statements, governance and systems of internal control including those relating to the Society's Irish branch.

The Committee will coordinate its activities with the Society's Risk and Compliance Committee, to avoid unnecessary duplication of work. In addition to its annual review of effectiveness, the activities of the Committee will be reviewed regularly and may be subject to change.

Oversee meaningful engagement with stakeholders (including all colleagues) to take account of their views when taking decisions.

3. Duties

The Committee has the following duties and responsibilities. In the exercise of such responsibilities, the Committee will, via its Chair, seek the input of relevant members of the Executive Committee, Irish Branch Committee, or Senior Management and will take advantage of the input and advice offered by the Risk and Compliance Committee.

Financial and regulatory reporting

The Committee shall:

1. Monitor the integrity of the financial statements of the Society and any formal announcements relating to the Society's financial performance and review significant financial reporting judgements contained in them.
2. Review the Solvency and Financial Condition Report and the Regular Supervisory Report.
3. Review and challenge where necessary:
 - The consistency of, and any changes to, accounting policies.
 - The methods used to account for significant or unusual transactions where different approaches are possible.
 - Whether the Society 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 Society's financial reports and the context in which statements are made.
 - All material information presented with the financial statements, insofar as it relates to audit.

4. Review the integrity of the Society's internal financial reporting.
5. Make recommendations to the Board enabling the Board to finalise and sign statutory reports and other returns required of it.
6. Review the content of the Annual Report and Financial Statements and inform the Board on whether, taken as a whole, it is fair, balanced, and understandable and provides the information necessary for members to assess the Society's performance, business model and strategy.

Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Society, it shall report its views to the Board.

Internal Controls, Whistleblowing, and Fraud

The Committee shall:

1. Review the adequacy of the Society's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other potential improprieties. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.
2. Review the Society's procedures for detecting fraud.
3. Review the Society's systems and controls for the prevention of bribery and receive reports on non-compliance.
4. Agree the policy for authorising claims for expenses from the Chief Executive and the Chair of the Board.
5. Seek assurance that the systems of internal control and risk management are fit for purpose and operating effectively and liaise with the Risk and Compliance Committee.

Internal Audit

The Committee shall:

1. Monitor and review the effectiveness of the Society's internal audit function.
2. Approve the appointment and removal of the outsourced internal audit providers.
3. Approve their remuneration.
4. Consider and approve the remit of the internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions.
5. Review and assess the annual internal audit plan and monitor progress against the plan.
6. Review promptly all reports on the Society from the internal auditors.
7. Review and monitor management's responsiveness to the findings and recommendations of the internal auditor.
8. Meet each of the Internal Audit & Compliance Manager and the principal lead of the external internal auditors at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out.

The Chair of the Committee may request a private meeting with the internal auditors at any other time.

External Audit

The Committee shall:

- 1 Consider and make recommendations to the Board, to be put to the members for approval at the AGM, in relation to the appointment, re-appointment, and removal of the Society's external auditor. The Committee shall oversee the selection process for new auditors.
- 2 Oversee the relationship with the external auditor including (but not limited to):
 - Approval of their remuneration.
 - Approval of their terms of engagement, including the Engagement Letter issued at the start of each audit.
 - Approval of the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
 - Annual assessment of their independence and objectivity considering relevant U.K. professional and regulatory requirements and the relationship with the auditor, including the provision of any non-audit services.
 - Satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Society (other than in the ordinary course of business).
 - Monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners and the level of fees paid by the Society compared to the overall fee income of the firm.
 - Annually assessing 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.
 - Seeking to ensure co-ordination with the activities of the internal audit function.
- 3 Meet with the external auditor, after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit. The Chair of the Committee may request a private meeting with the external auditors at any other time.
- 4 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 judgements.
 - Levels of errors identified during the audit.
 - The effectiveness of the audit process.
- 5 Review any management representation letter(s) requested by the external auditor before they are signed by management
- 6 Develop and implement policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, considering any relevant ethical guidance on the matter
- 7 Review the effectiveness of the audit reporting responsibilities:
 - The Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
 - The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
 - The Committee shall compile a report to members on its activities to be included in the Society's Annual Report.

4. Membership

Members of the Committee shall be appointed by the Board on the recommendation of the Nominations Committee and in consultation with the Chair of the Audit Committee. The Committee shall be made up of at least three members.

All members of the Committee shall be independent Non-Executive Directors, at least one of whom shall have recent and relevant financial experience. The Chair of the Board shall not be a member of the Committee.

Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chair of the Board, Chief Executive, other Directors, or senior managers may be invited to attend all or part of any meeting as and when appropriate.

The external and internal auditors will be invited to attend meetings of the Committee on a regular basis.

The committee as a whole shall have competence relevant to the sector in which the company operates.

At least one member of the Risk and Compliance Committee shall be a member of the Audit Committee.

The Board shall appoint the Committee Chair who shall be an independent Non- Executive Director. The Chair of the Risk & Compliance Committee shall, in the absence of the Committee Chair act as deputy chair.

Chair

The Chair of the Audit Committee shall be required to undertake the role of Head of Internal Audit for the Society's Irish branch and shall be authorised in that capacity by the Central Bank of Ireland.

5. Secretary

The Company Secretary or their nominee shall act as the Secretary of the Committee. All directors shall have access to the advice of the Company Secretary, who is responsible for advising the committee on all governance matters.

6. Quorum

The quorum necessary for the transaction of business shall be two members, one of which must be the Chair of the Committee or deputy (Chair of the Risk and Compliance Committee). 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. Frequency of Meetings

The Committee shall meet at least three times a year at appropriate times in the audit and reporting cycle and otherwise as required. Meetings can be held in person or remotely.

Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Society's governance, including the Chair of the Board, the Chief Executive, the Chief Financial Officer, and the Company Secretary.

8. Notice of Meetings

Meetings of the Committee shall be called by the Company Secretary at the request of any of its members or at the request of external or internal 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.

9. Conduct of Meetings

Except as outlined above, meetings of the committee shall be conducted in accordance with the Articles of Association where specified.

10. Minutes of Meetings

The Company Secretary or their nominee shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.

Minutes of Committee meetings shall be circulated within 15 working days to all members of the Committee.

11. Conflicts of interest

The Committee Chair 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 shall be recorded accordingly in the minutes. The Committee Chair may require any such conflicted member to withdraw from the meeting whilst the matter is considered by the Committee.

12. Engagement

The Chair of the Committee shall attend the Annual General Meeting in person prepared to respond to any member questions on the Committee's activities.

In addition, the Chair of the Committee should seek engagement with key stakeholders on significant matters relating to the Committee's area of responsibility, including colleagues.

13. Annual performance review

At least once a year, review its own performance and constitution to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

14. Terms of Reference review

These Terms of reference shall be reviewed annually.

15. Authority

The Committee is authorised:

- To seek any information, it requires from any employee of the Society to perform its duties.
- To obtain, at the Society's expense and via the Company Secretary, outside legal or other professional advice on any matter within its Terms of Reference.

16. Reporting Structure

The Committee will report directly to the Board via the Chair of the Committee.

The Chair of the Committee shall provide a written or verbal report (as appropriate or as requested by the Chair of the Board) to the following Board meeting.

17. Other Matters

The Committee shall:

- Consider and make recommendations on any other issues as requested by the Board.
- Oversight of actuarial activities come under the remit of the Risk & Compliance Committee.
- The Committee may request any attendees to leave the meeting in order that the Committee members can discuss matters confidentially.