

ARC Terms of Reference

AUDIT & RISK COMMITTEE

1. PURPOSE

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

2. SCOPE

The ARC 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.

3. DUTIES

3.1 Financial reporting

The Committee shall

- 3.1.1 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; and
 - 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

3.2 Internal Controls and Risk Management Systems

The Committee shall

- 3.2.1 review the CII's risk policy which sets out the CII's risk appetite and recommend for approval to the Board;
- 3.2.2 monitor and keep under review the effectiveness of the internal controls and risk management systems including how the risks identified by the Executive team are monitored and controlled. To discharge this responsibility a biennial review should take place of the adequacy, design and effectiveness of the Institute's risk management function, including the adequacy of resources in proportion to its current and expected size and complexity.
- 3.2.3 consider and advise the Board on the Institute-wide 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.

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- 3.2.4 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;
- 3.2.5 have oversight of treasury activities in implementing treasury policies approved by the Board, including investment manager relationship management and treasury internal controls;
- 3.2.6 consider and review the CII and or trustees' 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;
- 3.2.7 consider and review the CII and or trustees' approach to discharging their legal and regulatory liabilities for the closed defined benefit staff pension scheme, with reference to the CII's strategic objectives for the scheme, especially in relation to the adequacy of contributions; the efficacy or otherwise of the scheme's investment performance to meet those obligations and the CII's aims; requesting such evidence and making such recommendations to the Board as the Committee sees fit;
- 3.2.8 Review the CII's current risk exposure and capability to identify new and emerging risks
- 3.2.9 consider a report from the Executive Team on major risks that may materialize 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;
- 3.2.10 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;
- 3.2.11 Review the key terms of material contracts of more than one year's duration before they are considered by the Board.
- 3.2.12 Advise the Nominations and Remunerations Committee on the risk weightings to be applied to employee performance objectives
- 3.2.13 Make recommendations as to how a supportive risk culture can be embedded and maintained throughout the CII

3.3 Compliance, Whistleblowing and Fraud

The **Committee** shall review

- 3.3.1 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

approved by the Board on 14 December 2022

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investigation of such matters and appropriate follow up action.

- 3.3.2 the CII's procedures for detecting fraud.
- 3.3.3 the CII's systems and controls for prevention of bribery and receive reports of non compliance
- 3.3.4 regular reports from the relevant appointed offices and keep under review the adequacy and effectiveness of the CII's compliance activity.

3.4 External Audit

The Committee shall

- 3.4.1 Consider and make recommendations to the Board, following consultation with the Executive Team, to be put to Members for approval at the AGM, in relation to the appointment, re-appointment and removal of the external auditor. The Committee shall 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.
- 3.4.2 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; and
 - 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;
- 3.4.3 meet regularly with the external auditor, including 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;
- 3.4.4 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- 3.4.5 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, and
 - * levels of errors identified during the audit.

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The Committee shall also review the effectiveness of the audit

- 3.4.6 review any representation letter(s) requested by the external auditor before they are signed by the Board;
- 3.4.7 review the management letter and the CII's response to the auditor's findings and recommendations;
- 3.4.8 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.

4. AUTHORITY and RESOURCES

The Committee is authorised by the Board to:

- 4.1 to seek any information, it requires from any employee or officer of the CII in order to perform its duties;
- 4.2 to seek reports from such of the CII's Committees as it requires
- 4.3 to obtain, at the CII's expense, outside legal or other professional advice on any matter within its terms of reference; and
- 4.4 to call any employee or officer to be questioned at a meeting of the Committee as and when required.
- 4.5 have access to sufficient resources to undertake its duties including access to the Corporate Governance team for assistance as required

5. REPORTING RESPONSIBILITIES

- 5.1 The Committee Chair shall report to the Board, at least annually, on the proceedings of the Committee and how it discharges its responsibilities.
- 5.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 5.3 The Committee shall make a statement in the annual report about its activities.
- 5.4 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.

6. MEMBERSHIP

- 6.1 The Board shall appoint the Committee Chair on the recommendation of the Nominations and Remuneration Committee. In the absence of the Committee Chair the remaining members present shall elect one of themselves to chair the meeting.
- 6.2 Members of the Committee shall be appointed by the Chair of the Audit and Risk
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Committee in line with the process set by the Nominations and Remuneration Committee. The Committee shall be made up of at least four but not more than six members and shall include a member of the Local Institutes National Forum

- 6.3 The Committee members shall have the relevant skills and expertise to allow the Committee to exercise its function in an appropriate manner. A majority of members will be independent and at least one member shall have:
- recent financial experience
 - competence in accounting and /or auditing
 - competence in risk management practices in financial services
- 6.4 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.
- 6.5 Notwithstanding 6.3 above, the CII President or the Deputy President, the Chief Executive Officer, the Chief Operating Officer and Risk and Finance Directors are invited to attend all Committee meetings to address any matters raised.
- 6.6 Only members of the Committee have the right to attend Committee meetings. Other individuals may be invited to attend all or part of any meeting as and when appropriate. The Risk and Finance Directors' shall attend all meetings.
- 6.7 The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 6.8 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 term provided the member remains eligible throughout that period

7. MEETING ARRANGEMENTS

7.1 Secretary

The Company Secretary, or their nominee, shall act as the Secretary of the Committee.

7.2 Quorum

- 7.2.1 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.
- 7.2.2 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.

7.3 Meeting Administration

- 7.3.1 The Committee shall meet at least three times a year, at appropriate times in the reporting and audit cycle and otherwise as required by the Chair.
- 7.3.2 If any member of the Committee fails to attend three consecutive meetings, without

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good cause, they may be removed from the Committee by the Chair in consultation with the Board

- 7.3.3 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.
- 7.3.4 Outside of the formal meetings, the Committee Chair will maintain a dialogue with key individuals involved in the CII's governance.

7.4 Notice of Meetings

- 7.4.1 Meetings of the Committee shall be summoned by the Chair, the Secretary of the Committee or at the request of a majority of its members or at the request of external auditors if they consider it necessary.
- 7.4.2 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.

7.5 Minutes of Meetings

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

8. ANNUAL GENERAL MEETING

- 8.1 The Chair of the Committee shall provide a report on the activities of the Committee during the year which will be published in an Annual Report and made available at the CII's Annual General Meeting.
- 8.2 The Chair of the Committee shall attend the Annual General Meeting.

9. 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.

10. OTHER MATTERS

The Committee shall

- 10.1 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;
- 10.2 keep up to date and fully informed about the strategic issues, commercial and

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- regulatory changes affecting the CII and the market in which it operates;
- 10.3 consider key matters of their own initiative rather than solely relying on the work of the external auditor and the Executive 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;
 - 10.4 consider, on an annual basis, whether an internal audit of any CII functions should be undertaken or outsourced
 - 10.5 give due consideration to laws and regulations, and where applicable the provisions of the UK Corporate Governance Code
 - 10.6 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;
 - 10.7 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
 - 10.8 be available to advise the Board on any questions relating to the financial affairs of the CII on which advice might be sought.
 - 10.9 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.
 - 10.10 The Committee may work and liaise with other Committees as it sees fit.

11. 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 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.