

The Veterinary Defence Society Limited

Audit Committee

Terms of Reference

Approved by the Board 31 July 2019

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.

Membership

Members of the Committee shall be appointed by the Board, on the recommendation of the Nominations Committee and in consultation with the Chairman 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 Chairman 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 Chairman 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 Board shall appoint the Committee Chairman who shall be an independent Non- Executive Director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of their number to chair the meeting.

The Chairman 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.

Secretary

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

Quorum

The quorum necessary for the transaction of business shall be two members. 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.

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 may be held in person, over the telephone or by technology enabled conference.

Outside of the formal meeting programme, the Committee Chairman will maintain a dialogue with key individuals involved in the Society's governance, including the Chairman of the Board, the Chief Executive, the Finance Director and the General Counsel and Company Secretary.

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.

Minutes of Meetings

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

The Company Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

Minutes of Committee meetings shall be circulated promptly to all members of the Committee and Chairman of the Board and, once agreed, to all members of the Board, unless a conflict of interest exists.

Annual General Meeting

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

Reporting Structure

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

Internal and External Audit will report directly to the Chair of the Committee for audit related matters and the Chief Executive for day to day operational matters.

The Committee may request any attendees to leave the meeting in order that the Committee members can discuss matters confidentially.

Duties

The Committee has the following duties and responsibilities. In the exercise of such responsibilities, the Committee will, via its Chairman, 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

- 1 The Committee shall monitor the integrity of the financial statements of the Society, including its statutory and regulatory annual and quarterly reports and returns, interim management statements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The Committee shall also review summary financial statements and significant financial returns to regulators.
- 2 The Committee shall review the Solvency and Financial Condition Report and the Regular Supervisory Report.
- 3 The Committee shall 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, and
 - All material information presented with the financial statements, insofar as it relates to audit.
- 4 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
- 5 The Committee shall review the integrity of the Society's internal financial reporting
- 6 The Committee shall make recommendations to the Board enabling the Board to finalise and sign statutory reports and other returns required of it
- 7 The Committee shall 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.

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 Chairman 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 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
- 4 Review and assess the annual internal audit plan and monitor progress against the plan
- 5 Review promptly all reports on the Society from the internal auditors
- 6 Review and monitor management's responsiveness to the findings and recommendations of the internal auditor
- 7 Meet the Head of Internal Audit function at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out.
- 8 The Chairman 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.

- Approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
 - Assessing annually their independence and objectivity taking into account relevant U.K. professional and regulatory requirements and the relationship with the auditor as a whole, 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.
 - 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
 - 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 Chairman 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, taking into account any relevant ethical guidance on the matter
- 7 The Committee shall also review the effectiveness of the audit reporting responsibilities:
- The Committee Chairman 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' Annual Report

Other Matters

The Committee shall:

- Have access to sufficient resources in order to carry out its duties, including access to the Society's Company Secretary for assistance as required.

- Consider and make recommendations on any other issues as requested by the Board.
- At least once a year, review its own performance, constitution and Terms of Reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

Authority

The Committee is authorised:

- To seek any information it requires from any employee of the Society in order 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.

Cecilia M Gannon
General Counsel and Company Secretary
31 July 2019