THE BRITISH UNITED PROVIDENT ASSOCIATION LIMITED

AUDIT COMMITTEE

Terms of Reference

1. Constitution and Role

The Committee’s current Terms of Reference were reviewed and adopted by a resolution of the Board on 13 December 2018.

This Terms of Reference sets out the authorities and responsibilities delegated to the Committee by the Board.

The principal role of the Committee is to monitor the integrity of Bupa’s financial statements and the effectiveness of the systems of internal controls and to monitor the effectiveness, performance and objectivity of the internal and external auditors.

2. Membership and Secretary

2.1 Composition The Committee shall comprise at least three members appointed by the Board, on the recommendation of the Nomination & Governance Committee in consultation with the Audit Committee Chairman. Membership shall include the Chairman of the Risk Committee and, where possible, one member of the Remuneration Committee. The Chairman of the Board shall not be a member of the Committee.

2.2 Independence All of the members of the Committee shall be independent Non-Executive Directors.

2.3 Chairman The Chairman of the Committee shall be appointed by the Board on the recommendation of the Nomination & Governance Committee and shall be an independent Non-Executive Director. In the absence of the Chairman of the Committee, the members present at any meeting of the Committee shall elect one of their number to chair the meeting.

2.4 Financial experience At least two members of the Committee shall have recent and relevant financial experience, ideally with an appropriate professional qualification from one of the recognised accounting bodies. The remaining members should at a minimum have experience of dealing with financial and accounting matters.

2.5 Knowledge All members are required to keep up-to-date on financial and regulatory issues and, where appropriate, shall receive induction and ongoing professional development to ensure this.
2.6 The Committee as a whole should have competence relevant to the health insurance and healthcare sectors in which Bupa operates.

2.7 **Disclosure of interests** Each member of the Committee shall disclose to the Committee:

(a) any personal financial interest in any matter to be decided by the Committee; and

(b) any potential conflict of interest arising from a cross-directorship.

Any such member shall abstain from voting on resolutions of the Committee in relation to which such interest exists and from participating in the discussions concerning such resolutions.

2.8 **Secretary** The Company Secretary or his/her nominee shall be secretary to the Committee.

3. **Meetings**

3.1 **Frequency** The Committee Chairman, in consultation with the Secretary, shall decide the frequency and timing of the Committee’s meetings. However, a meeting of the Committee may be called by any member of the Committee, the Secretary, the external audit partner or Chief Internal Auditor and shall be held as soon as reasonably practicable after such request. Meetings shall be held at least four times a year at appropriate times in the reporting and audit cycle and at other times as required.

3.2 **Quorum** The quorum for meetings of the Committee shall be two members present throughout the meeting, one of which shall also be a member of the Risk Committee. A member may participate in a Committee meeting by telephone or by video conference (including Skype) and be counted in the quorum.

4. **Proceedings**

4.1 **Notice** Notice of each meeting confirming the date, time and venue shall be circulated by the Secretary to all members of the Committee and to other attendees (if appropriate) as far in advance as possible.

4.2 **Supporting Papers** Supporting papers for each meeting shall be circulated by the Secretary to all members of the Committee and to other attendees (if appropriate) at least five working days before a meeting.

4.3 Format of Papers Notices, agendas and supporting papers can be sent in electronic form where the recipient has agreed to receive documents in such a way.
4.4 **Attendance** Only the Committee Chairman and members of the Committee or Non-Executive Directors on the Board are entitled to be present at meetings of the Committee. The external audit lead partner, the Chief Internal Auditor and Chief Financial Officer will be invited to attend meetings of the Committee on a regular basis. The Committee shall however have the discretion to invite any other person(s) (such as the Chief Executive Officer, the Chief Risk Officer and representatives from the finance function and external auditors) to attend all or part of any meeting which it considers appropriate.

4.5 **Duration** Sufficient time should be allowed to enable the Committee to undertake as full a discussion as may be required.

4.6 **Minutes** The Secretary 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 produced within ten working days of the meeting and circulated to members as soon as practicable following the meeting and to all other Directors unless there is a conflict of interest.

5. **Authorities**

5.1 **Resources and support** The Committee shall be provided with sufficient resources to undertake its duties. The Committee shall have access to the services of the Secretary, the Corporate Controller and the Chief Internal Auditor on all Audit Committee matters, including (but not limited to) assisting the Chairman in planning the Committee’s work, drawing up meeting agendas, preparation and maintenance of the minutes, drafting of material about its activities for the Annual Report, collection and distribution of information and provision of any necessary practical support.

5.2 **Investigation** The Committee is authorised by the Board to investigate any activity within its terms of reference and to intervene if the Committee considers it appropriate and if the Board instructs it to do so.

5.3 **Information** The Committee is authorised to have unrestricted access to all of the books and records of the Company, to seek any information it requires from any employee. All employees are directed to co-operate with any request made by the Committee Chairman or the Company Secretary acting on instructions from the Committee. The Committee will advise the Chief Executive Officer if it has exercised this authority to seek information (other than routine information) from any employee, setting out the information required and the circumstances underlying the request.
5.4 **Advice** The Committee is authorised by the Board to obtain independent legal, accounting or other professional advice on any matter within its terms of reference and to secure the attendance of such advisers with relevant experience and expertise, at the Company’s expense, if it considers this necessary. The Committee shall consult with the Chairman of the Board before any fees are agreed.

5.5 **Reports** The Committee is authorised to commission any reports or surveys that it considers necessary to help it fulfil its duties and responsibilities.

5.6 **Delegation** The Committee may delegate any actions in support of its function to a competent person, providing the terms of the delegation are documented in the Committee’s records, but it may not delegate accountability for its function.

6. **Duties and responsibilities**

The Committee shall carry out the duties below:

6.1 **Integrity of Financial Statements**

The Committee shall monitor the integrity of the financial statements of the Company, including its annual and interim reports, announcement of preliminary results and any other formal announcement relating to its financial performance. The Committee shall review and report to the Board on the significant financial reporting issues and the judgements which they contain, paying particular attention to the matters communicated to it by the auditors. The Committee shall review and challenge where necessary the following:

(a) **Significant policies** Considering the application and consistency of significant accounting policies and practices and any significant estimates and judgements with regard to any changes to them both on a year on year basis and across the Company/Bupa;

(b) **Appropriate accounting treatment** Where the accounting treatment is open to different approaches, considering whether the Company has adopted the appropriate accounting standards and policies and, where necessary, used appropriate:

(i) estimates and judgements, taking into account the external auditor’s view; and
(ii) methods to account for significant or unusual transactions;

(c) **Disclosures** Reviewing the clarity and completeness of disclosures in the Company’s financial statements and considering whether the disclosures made are set properly in context;
(d) **Review material information** Reviewing material information presented with the financial statements, such as the strategic review and corporate governance statements relating to audit and risk management;

(e) **Narrative Reporting** The Committee should review the content of the Annual Report and Accounts (and interim or other price-sensitive public records and reports to regulators where requested by the Board) and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for stakeholders to assess the Company’s position, performance, business model and strategy and whether it informs the Board’s statement in the Annual Report and Accounts on these matters that is required under the Code;

(f) **Compliance** Reviewing the compliance of the financial statements with applicable International Financial Reporting Standards (IFRS) and UK Generally Accepted Accounting Principles (UKGAAP) reporting requirements;

(g) **Going Concern and Long Term Viability** Reviewing the assumptions on which the assessment of the long term viability statement and statement of going concern are based, identifying any material uncertainties to the Company’s ability to continue to adopt the going concern basis of accounting over at least the subsequent 12 months, and considering the consistency of analysis supporting the two statements, reviewing the analysis of the financial position and recommending to the Board;

(h) **Adequacy of financial reporting** Where, following its review, the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board;

(i) **Recommendation** Where appropriate, recommend the financial statements to the Board for approval; and

(j) **Other Statements** The Committee shall review any other statements requiring Board approval which contain financial information first, where to carry out a review prior to Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules or Disclosure Guidance and Transparency Rules Sourcebook.
6.2 **Tax Matters**

The Committee will review the tax position of Bupa.

6.3 **Reporting to Regulators**

Review on a regular basis reports to regulators, including, but not limited to:-

(a) Annual Quantitative Reporting Template (AQRT) submission.

(b) Annual Solvency and Financial Condition Report (SFCR) and the Regular Supervisory Report (RSR) submissions.

6.4 **Systems of Internal Control**

The Committee shall:

(a) **Review Systems** Undertake ongoing review of the adequacy and effectiveness of the Company’s internal financial controls and in particular:

(i) The effectiveness of the systems and controls and whether appropriate actions to rectify weaknesses are being taken;

(ii) Major issues regarding the effectiveness of the systems and controls;

(iii) Controls and compliance culture; and

(iv) Monitor weaknesses in controls reported by the internal and external auditors and follow up remedial actions taken by management.

(b) **Annual statement** From an internal control perspective, review and approve the Company’s annual statement on its systems of internal control and risk management, prior to endorsement by the Board, and in particular review:

A. the procedures for identifying business, operational, financial, compliance and other risks and controlling their impact on the Company having regard, in particular, to any significant failings or weaknesses in internal control that have been reported;

B. the actions taken to remedy any significant failings or weaknesses, including their timeliness;

C. the Company’s policies for ensuring that the Company complies with relevant regulatory and legal requirements; and
D. the operational effectiveness of these policies and procedures.

(c) **Whistleblowing** Keep under review the adequacy and security of the Company’s arrangements for its employees and contractors to raise concerns, in confidence, about possible improprieties in financial reporting and other matters and ensure that arrangements are in place for proportionate and independent investigation and appropriate follow-up action on such matters.

6.5 **External Audit**

The Committee shall:

(a) **Appointment and removal** Conduct the process for selecting the external auditors and make recommendations to the Board, to be put to Association Members for approval at the Annual General Meeting, regarding the appointment, re-appointment and removal of the external auditors.

(b) **Tender** Review performance and tenure annually and give consideration to an appropriate point at which to recommend tender to the Board; and in respect of such tender, conduct the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process.

(c) **Committee recommendation** If the Board does not accept the Committee’s recommendation on the appointment, re-appointment or removal of external auditors, prepare a statement explaining the Committee’s recommendation which shall be included in the Annual Report and in any papers recommending appointment or re-appointment together with the Board’s reasons for taking a different position.

(d) **Resignation** If the external auditors resign, investigate the issues leading to such resignation and consider whether any action is required.

(e) **Remuneration** Where the Directors have been authorised to do so by the Association Members in general meeting, approve the remuneration payable to the external auditors in respect of both audit fees and any other fees which are payable to them in relation to non-audit services. Ensure that the level of fees is appropriate to enable an effective and high quality audit to be conducted. Monitor that the level of fees paid by the Company compared to the overall fee income of the firm, office and partner, are in compliance with ethical and professional guidance.
(f) **Terms of engagement** Approve the external auditors’ terms of engagement.

(g) **Auditor meetings** Meet regularly with the external auditors, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditors, at least once a year, without management being present, to discuss their remit and any issues arising from the audit.

(h) **No restrictions** Ensure that no management or other restrictions are being placed on the external auditors.

(i) **Expertise** Assess annually the qualification, expertise and resources of the external auditors and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements. The assessment should cover all aspects of the audit service provided by the audit firm and include obtaining a report on the audit firm’s own internal quality control procedures.

(j) **Rotation** Ensure that the external auditors’ engagement partners are rotated at appropriate intervals in compliance with relevant ethical and professional guidance.

(k) **Relationship with Internal Audit** Ensure the co-ordination of the external auditors with the internal audit function.

(l) **Independence** Review and monitor the application of the Company’s policy in relation to the external auditors’ independence and objectivity and the effectiveness of the audit process. This should be done annually on the basis of the policy, taking into consideration relevant professional and regulatory requirements, the relationship with the auditors as a whole, including the provision of any non-audit services and satisfy itself that there are no relationships (such as family, employment, investments, financial or business) which could adversely affect the auditors’ independence and objectivity. Develop and monitor the application of the Company’s policy on employment of former partners or employees of the external auditors. Monitor the external auditors’ processes for maintaining independence, its compliance with relevant professional and regulatory requirements, taking into account relevant ethical guidance, including the guidance on the rotation of the audit partner and staff.

(m) **Non-audit services policy** Approve, regularly review and monitor compliance with the Company’s policy on the supply of non-audit services by the external auditors; taking into account relevant regulations and ethical guidance; report to the Board, identifying any matters in respect of which it considers action is needed and make recommendations as to the steps to be taken (so as to ensure that there is prior approval of non-audit services, by the Committee
or management as set out in the policy, and the provision of such services does not impair the external auditors’ independence and objectivity).

(n) **Annual audit plan** Review and approve the annual audit plan, including the scope, materiality level and procedures of their audits and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team.

(o) **Review audit findings** Discuss and review with the external auditor (in the absence of management where necessary) the results of its work in conducting the annual and any interim audit, including but not limited to any major issues which have arisen during the course of the audit (both resolved and unresolved issues), key accounting and audit judgements, levels of error identified during the audit, obtaining explanations from management (and where necessary the external auditors) as to why certain errors might remain unadjusted; and recommend appropriate action regarding those matters.

(p) **Representation letters** Review the audit representation letters requested by the external auditors before they are signed by management, giving particular consideration to matters where representation has been requested in relation to non-standard issues; give consideration to whether the information provided is complete and appropriate based on its own knowledge.

(q) **Management letter** Review the external auditors’ management letter and review and monitor management’s response to the external auditors’ findings and recommendations.

6.6 **Internal Audit**

The Committee shall:

(a) **Remit** Review and approve the Internal Audit function’s remit as set out in the Global Internal Audit Charter and recommend to the Board;

(b) **Chief Internal Auditor** Approve the appointment and removal of the Chief Internal Auditor. Through the Chairman of the Committee, set objectives and review the performance of the Chief Internal Auditor, taking into account the views of the Group Chief Executive Officer. Through the Chairman of the Committee, recommend the performance rating and remuneration of the Chief Internal Auditor to the Remuneration Committee. Where tenure of the Chief Internal Auditor exceeds seven years, annually assess the independence and objectivity of the Chief Internal Auditor;
(c) **Effectiveness of Internal Audit function** Monitor and evaluate annually the effectiveness of the Company’s internal audit function in the context of the overall risk management system; ensure that the Internal Audit function is adequately resourced, has the appropriate skills and experience, has access to the information necessary to enable it to fulfil its mandate, and is able to perform in accordance with appropriate professional standards for internal auditors. Review the results of the Internal Audit Function’s internal Quality Assurance processes and, where appropriate, commission independent review of the effectiveness of the Internal Audit function, whose appointment is agreed by the Committee Chairman;

(d) **Access for / to the Chief Internal Auditor** the Chief Internal Auditor has direct access to the Chairman of the Committee and to the Chairman of the Board and is accountable to the Committee. Ensure that the Chairman and members of the Committee have direct access to the Chief Internal Auditor.

(e) **Free of restrictions** Ensure that no management or other restrictions are placed on the internal auditors;

(f) **Annual audit plan** Review and approve the annual internal audit plan and budget of Internal Audit, including the scope of their audits, ensuring it is aligned to the key risks of the business. Monitor the planned programme of audits and ascertain the reason for any change or delay in the programme;

(g) **Reports and actions** Require and review reports from Internal Audit on their audit findings, management responses and action plans in relation to those findings and reports from the internal auditors on the implementation of those action plans by management;

(h) **Annual meeting** Meet the Chief Internal Auditor at least once a year, without management being present, to discuss the remit and any issues arising from the internal audits carried out; and

(i) **Management response** Review and monitor management’s response to Internal Audit’s finding and recommendations, including any requests from management for extensions to previously agreed timeframes for remediation action(s).

### 6.7 Reporting Responsibilities

(a) **The Board** The Chairman of the Committee (or a Committee member nominated by the Chairman) shall report to the Board on the proceedings of each Committee meeting and all matters within the Committee’s duties and responsibilities. The Chairman of the Committee shall also formally report to the Board on how the
Committee has discharged its responsibilities. This report shall include:

A. the significant issues that it considered in relation to the financial statements (required under paragraph 6.1) and how these were addressed;

B. its assessment of the effectiveness of the external audit process (required under paragraph 6.3) and its recommendation on the appointment or re-appointment of the external auditor; and

C. any other issues on which the Board has requested the Committee’s opinion.

(b) **Recommendations** The Committee shall make whatever recommendations to the Board it considers appropriate on any area within its remit where action or improvement is necessary.

(c) **Committee Report** The Committee shall assist the Board by preparing a statement for inclusion in the Company’s Annual Report describing the activities of the Committee. The report should include an explanation of how the Committee has addressed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans; an explanation of how auditor objectivity and independence are safeguarded where the external auditor provides non-audit services; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor, and all other information requirements set out in the Code. If the Board does not accept the Committee’s recommendation on any matter, prepare a statement explaining the Committee’s recommendation which shall be included in the Annual Report with the Board’s reasons for taking a different position.

(d) **Reporting Issues and Going Concern** In compiling the reports in 6.6 (a) and (c) above, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant. It should include at least those matters that have informed the Board’s assessment of whether the Company is a going concern (and identify any material uncertainties to the Company’s ability to remain a going concern) and to support the long term viability statement.

(e) **Non-audit services** If the external auditors provide non-audit services, the Committee shall provide an explanation for inclusion in the Annual Report of how auditor objectivity and independence are safeguarded.
(f) **AGM** The Chairman of the Committee shall attend the Company’s Annual General Meeting and be available to respond to any questions on the Committee's activities and areas of responsibility.

6.8 **Other Matters**

The Committee shall:

(a) **Communication** Facilitate open communication:-

(i) between the internal auditors and the external auditors;
(ii) between the internal and external auditors and the Board; and
(iii) with key individuals involved in the Company's governance. Outside the formal meeting programme, the Committee Chairman will maintain dialogue including with the Chairman of the Board, the CEO, the CFO, the external auditors and the Chief Internal Auditor.

(b) **Review performance** At least once a year, review its own performance, composition and terms of reference to ensure that it is operating at maximum effectiveness and to recommend any changes it considers necessary to the Board for approval;

(c) **Terms of Reference** Make available these terms of reference (explaining the role and the authority delegated to it by the Board) on request and by including the information on the Company’s website;

(d) **Other projects** Undertake any other projects, as requested by the Board;

(e) **Liaison with other Committees** Work and liaise as necessary with all other Board Committees, taking particular account of the impact of risk management and internal controls being delegated to different committees; and

(f) **Liaison with Subsidiary Company Audit Committees** Work and liaise as necessary with major Subsidiary Company Audit Committees.

7. **Definitions**

**Board** means the Board of Directors of the Company.

**Bupa** means the Company and its subsidiary companies.

**Code** means the UK Corporate Governance Code (as amended from time to time).
Committee means the Audit Committee of the Board

Company means The British United Provident Association Limited.

Directors means Directors of the Company.

Independent Non-Executive Directors means Directors who have been appointed to the Company as Non-Executive and are deemed independent of the Company in accordance with the Code.