

**BLUE CROSS AND BLUE SHIELD OF ARIZONA  
AUDIT, COMPLIANCE AND RISK COMMITTEE CHARTER  
MAY 2019**

**PURPOSE**

The Audit, Compliance and Risk Committee (Committee) is a Committee of the Board of Directors (Board) of Blue Cross and Blue Shield of Arizona, Inc. (Corporation). Its primary purpose is to assist the Board in its oversight of (1) the integrity of the Corporation's financial statements, (2) the Corporation's compliance with legal and regulatory requirements for all products and programs, (3) the Corporation's Enterprise Risk Management (ERM) activities, (4) the independent auditor's qualifications and independence, and (5) the performance of the independent auditors and the Corporation's internal audit function.

This Charter is not intended to change or augment the obligations of the Corporation, its Directors or management under any laws, or to create new standards for determining whether the Board, Directors or management have fulfilled their duties, including fiduciary duties, under applicable law.

**COMMITTEE DUTIES AND RESPONSIBILITIES**

**Oversight of the Corporation's Relationship with the Independent Auditor**

1. The Committee shall have the sole authority for appointing, compensating and overseeing an independent auditor, including the scope of and compensation for all audit and permitted non-audit services. The independent auditor shall report directly to the Committee. The Committee shall:
  - a. Review and evaluate the lead partner of the independent auditor team.
  - b. Discuss with the independent auditor at least annually:
    - i. The independent auditor's internal quality-control procedures;
    - ii. Any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm;
    - iii. Any steps taken to deal with any such issues; and
    - iv. All relationships between the independent auditor and the Corporation.
  - c. Ensure the rotation of the audit partners at least every five (5) years and periodically the audit manager.
  - d. Conduct pre- and post-audit meetings with the Independent Auditors to set parameters for the audit and review the findings.
2. The Committee shall present its conclusions with respect to the independent auditor to the Board.
3. The Committee shall take other action it deems necessary to ensure the independence of the auditor.

The services of the independent auditor are primarily to review and audit the Corporation's financial records and statements. The Corporation shall not obtain from the independent auditor certain non-audit services including but not limited to bookkeeping, broker-dealer, financial systems design and implementation, management, or actuarial services.

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**Oversight of the Corporation's Internal Audit Function**

The Committee shall:

1. Review and concur with the CEO in the appointment, compensation, replacement or dismissal of the Vice President of Internal Audit.
2. Review the significant reports to management prepared by Internal Audit and management's responses.
3. Discuss with the independent auditor and the Vice President of Internal Audit the responsibilities, budget, and staffing and any recommended changes in the planned scope of the internal audit plan.
4. Review and approve Internal Audit's audit plan at least annually and approve all substantial revisions to the plan.
5. The Committee shall meet without staff at least annually with the Vice President of Internal Audit and Compliance Officer, and the independent auditor in separate meetings.

**Financial Statement and Disclosure Matters**

The Committee shall:

1. Review and discuss with management the following as related to the filing of the Corporation's Annual Statement to the Arizona Department of Insurance:
  - a. The annual audited financial statements contained in the Annual Statement; and
  - b. The "Management's Discussion and Analysis of Financial Condition and Results of Operations."
2. Discuss with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Corporation's financial statements, including any significant changes in the Corporation's selection or application of accounting principles, any major issues as to the adequacy of the Corporation's internal controls and any special steps adopted in light of material control deficiencies.
3. Discuss with management the Corporation's major financial risks and the steps management has taken to monitor and control such risks, including the Corporation's risk assessment and risk management policies.
4. Review and discuss with the independent auditors:
  - a. All critical accounting policies and practices to be used;
  - b. All alternative treatments of financial information within generally accepted or statutory accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and
  - c. Other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
5. Discuss with management the Corporation's press releases relating to increases to reserves, surplus or income, if any, as well as financial information provided to rating agencies. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made).
6. Discuss with management and the independent auditor the effect on the Corporation's financial statements of regulatory and accounting initiatives.
7. Discuss with the independent auditor the matters required to be discussed by Auditing Standard 1301 relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.

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8. Review findings that are reportable to any governmental agencies about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Corporation's internal controls.
9. An appointed actuary shall provide a report to the Committee annually regarding the required Actuarial Opinion and Actuarial Memorandum, in accordance with the requirements of the National Association of Insurance Commissioners (NAIC).

**Compliance Oversight Responsibilities**

The Committee shall:

1. Obtain from the independent auditor, the Vice President of Internal Audit and the Compliance Officer assurance that if they detect or become aware of any Corporation material weakness or condition reportable to government agencies, regardless of the dollar amount involved, the Committee is promptly and directly informed.
2. Review management's monitoring of the Corporation's compliance with the Corporation's Code of Conduct and Compliance Program.
3. Review and concur in the appointment, compensation, replacement or dismissal of the Corporation's Compliance Officer.
4. Discuss with management and the independent auditor any correspondence with regulators or governmental agencies and any published reports that raise material issues regarding the Corporation's financial statements or accounting policies.
5. Discuss with the Corporation's General Counsel legal matters that may have a material impact on the financial statements or the Corporation's compliance policies.
6. Review this Committee Charter at least annually and, if appropriate, recommend changes to the Board of Directors.

**Enterprise Risk Management**

The Committee shall:

1. Review management's processes to identify and manage key risks of the Corporation including strategic and material operational risks (e.g., information security, compliance, business operations).
2. Review reports from management related to enterprise risks within the Committee's scope of responsibility.

**COMMITTEE'S ROLE - GENERAL**

While the Committee has the responsibilities and authority set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted or statutory accounting principles. This is the responsibility of management and the independent auditor. Further, it is not the duty of the Committee to conduct investigations, to certify to government agencies or to assure compliance with applicable state and federal laws and regulations and the Corporation's Code of Conduct and Compliance Program.

**RISK ASSESSMENT**

The Committee periodically shall review and assess risks associated with matters within its scope of responsibilities and duties.

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**ANNUAL PERFORMANCE EVALUATION AND CHARTER REVIEW**

The Committee annually shall produce and provide to the Nominating and Governance Committee of the Board a performance evaluation of the Committee including reviewing the Committee's compliance of the Committee with this Charter. In addition, the Committee shall review and reassess, periodically, the adequacy of this Charter and recommend to the Board for its approval any improvements deemed necessary or desirable by the Committee. The Committee shall conduct such evaluations and reviews in such manner as the Committee deems appropriate.

**EXTERNAL ADVISORS/CONSULTANTS**

It is the Committee's responsibility to hire and terminate external advisors/consultants, who shall report directly to the Committee, including, but not limited to, legal counsel needed to assist the Committee in the performance of its duties.