

## **Audit & Risk Committee | Terms Of Reference**

The Audit and Risk Committee is a committee of the Board without executive powers, comprising of a minimum of three independent non-Executive directors, one of whom should have recent and relevant financial experience. Each member is appointed annually at the Board meeting following the Annual General Meeting. The Chairman of the Audit and Risk Committee, who must not be the Society's Chairman, will be appointed by the Board. Two non-Executive Directors must be present to form a quorum.

The Society's Executive Directors, Head of Internal Audit, and the Group Compliance Manager may also be invited to attend meetings. At the request of the Committee and where deemed appropriate, other members of staff and external consultants may also attend. A representative of the Society's External Auditors should attend all meetings, but will not normally attend that part of any meeting where matters relating to the appointment, remuneration, effectiveness or dismissal of the External Auditors are discussed.

The Assistant Secretary of the Society shall act as Secretary to the Committee.

The Audit and Risk Committee will meet at least quarterly in March, June, September and December, with a further meeting in May in connection with the Society's Annual Report and Accounts, and at any other times deemed necessary by the Committee to fulfil its obligations under these terms of reference.

The External Auditor or Head of Internal Audit may request a meeting if they consider that one is necessary.

The Audit and Risk Committee is authorised by the Board to investigate any activity within its terms of reference and seek any information that it requires from any employee of the Society or its subsidiaries. All employees are directed to cooperate with any request made by the Committee.

These terms of reference will be reviewed annually with any changes being approved by the Board.

### **Reporting**

Audit and Risk Committee minutes will be considered at each Board Meeting following the Audit and Risk Committee Meeting.

**Authority and Responsibility of the Audit and Risk Committee in respect of:**

**1. Internal Control and Risk Management**

- 1.1 To satisfy the Board on the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non financial risks in relation to its existing and future business and related capital requirements.
- 1.2 To review compliance with requirements and standards under the regulatory system.
- 1.3 To receive and review on a quarterly basis, reports on the management of risk by the Society's Risk Management Committee, Information Security Committee and the Fraud Prevention Committee.
- 1.4 To satisfy the Board that weaknesses in control are being corrected.
- 1.5 To review the adequacy of management information and other reports made available to the Board.
- 1.6 To review the statement in the annual report and accounts on the Society's internal controls and risk management framework.

**2 External Audit**

- 2.1 To assess the external audit function.
- 2.2 To recommend to the Board annually the re-appointment, or in the event of a vacancy, the appointment, remuneration and terms of engagement of External Auditors. This is to be done after:
  - 2.2.1 formally reviewing their qualifications, skills, experience, resources, independence and effectiveness of the audit process.
  - 2.2.2 assessing the audit firm's own internal quality control procedures and having given due consideration to their annual transparency reports (where available).
  - 2.2.3 considering the risk to the Society of the External Audit firm withdrawing from the market.
  - 2.2.4 determining that they have not been disqualified by the FSA under Sec 345 of the FSMA 2000 by the FSA. (Sup 3.4.5 R).
- 2.3 To make recommendations to the Board concerning the dismissal of the External Auditors.

- 2.4 To include a statement in the Audit and Risk Committee section of the annual report on how the Audit and Risk Committee reached its recommendation to the board on the appointment, reappointment or removal of the external auditors.
- 2.5 To monitor the External Auditors' compliance with applicable UK ethical guidance with respect to rotation of partners and level of fees to overall fee income of the firm, office and partner and other related regulatory requirements.
- 2.6 To seek reassurance that the auditors and their staff have no financial, business, employment or family and other personal relationship with the company which could adversely effect the auditors' independence and objectivity.
- 2.7 To monitor the relationship with the External Auditors and ensure that they have direct access to the Audit and Risk Committee.
- 2.8 To ensure that the External Auditors have appropriate plans in place for the Society's audit and to review with the External Auditors findings of their work.
- 2.9 To reassure the Board that there are no restrictions on the scope and depth of external audit work.
- 2.10 To receive the External Auditors' Interim and final Management Letters and review the activities, findings, conclusions and recommendations made, along with management's response.
- 2.11 To develop, implement and then review on an annual basis, a policy on the engagement of external auditors to supply non audit services.
- 2.12 To develop, implement and then review on an annual basis, a policy on the employment of former employees of the external auditor and make recommendations to the board on areas it considers actions and improvements are required.
- 2.13 To meet at least annually (after the June Audit and Risk Committee meeting) with the External Auditor without the presence of Society management, to discuss audit issues.

### **3 Internal Audit**

- 3.1 To assess the effectiveness of the Society's Internal Audit function, in the overall context of the Society's risk management system, including an assessment of the scope of work performed by Internal Audit, the nature and timing of Internal Audit reports, its independence and the adequacy of Internal Audit resources, including number, experience, skills and training of staff within the Internal Audit function.
- 3.2 Ensure Internal Audit have direct access to the Chairman of the Committee and Board Chairman and is accountable to the Audit and Risk Committee.
- 3.3 To review the Internal Audit Charter to ensure it is appropriate.
- 3.4 To approve the appointment and termination of the employment of the Head of Internal Audit.
- 3.5 To review and approve the preparation and supervision of Internal Audit's plan and programme.
- 3.6 To receive reports from the Head of Internal Audit on the results of the Internal Audit Departments work (Including any outsourced work i.e. IT) and report to the Board on the Audit Plan together with recommendations for improvements.
- 3.7 To review and monitor management's responsiveness to internal audit findings and recommendations.
- 3.8 To review Internal Audit's reporting format to the Audit and Risk Committee to determine if it remains appropriate to enable the Committee to carry out its duties.
- 3.9 To review the reasons for any rejection by management of major points raised by Internal Audit.
- 3.10 To consider and approve any arrangement to outsource parts of the Internal Audit function.
- 3.11 To meet at least annually (after the March Audit and Risk Committee meeting) with the Head of Internal Audit without the presence of Society management, to discuss audit issues.

### **4 Compliance**

- 4.1 To monitor and review the effectiveness of the Compliance Function in the context of the Society's overall risk management system.
- 4.2 To review and approve the annual Compliance Plan.

- 4.3 To review all reports to the Audit and Risk Committee on the Group from the Compliance function.
- 4.4 To review arrangements established by management for compliance with regulatory, financial reporting and other requirements.

## **5 Financial Reporting**

- 5.1 To review and challenge where necessary, critical accounting policies, any changes to them and any significant estimates and judgements, made by management in connection with the preparation of the Society's Annual Accounts, Directors Report, Annual Business Statement and Summary Financial Statement, before submission to and approval by the Board and before clearance by the auditors.
- 5.2 To review and challenge where necessary, the clarity and completeness of disclosures to be made in the Annual Accounts, Directors Report, Annual Business Statement and Summary Financial Statement prior and to report to the Board on these.

## **6 General**

- 6.1 To make available on the Society's website or on request through the Society's Secretary, to anyone who requires them, terms of reference of the Audit and Risk Committee.
- 6.2 To approve an annual statement for inclusion in the annual report, describing the work of the Audit and Risk Committee, including:-
  - 6.2.1 A summary of the role of the Committee
  - 6.2.2 The names and qualifications of all members of the Committee during the period
  - 6.2.3 The number of meetings held and attendance by each member
  - 6.2.4 The way the Committee has discharged its responsibilities
- 6.3 To review the Society's Whistle Blowing arrangements and proportionate/independent investigations of such matters and appropriate follow up action.
- 6.4 To review the Society's arrangements for detecting fraud.
- 6.5 The Chairman of the Audit and Risk Committee will keep in touch on a continuing basis with key people involved in the Society's governance, including the Board Chairman, Chief Executive, Finance Director & Secretary and Head of Internal Audit.

- 6.6 The Chairman of the Audit and Risk Committee will attend the Society's Annual General Meeting to answer any questions raised during the meeting.
- 6.7 The Chairman of the Audit and Risk Committee is responsible for ensuring that members of the Committee continually update their skills and knowledge and familiarity with the Society, to enable them to fulfil their role on the Audit and Risk Committee.
- 6.8 The Audit and Risk Committee has access to secretarial and legal services and training provided by the Society, and to reasonable funds to enable it to take independent legal, accounting or other appropriate advice or training, or secure the attendance of outsiders with relevant experience and expertise, where considered necessary.