

# Audit Committee Terms of Reference – November 2020

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## **Purpose**

The Board has established a committee of the Board to be known as the Audit Committee to support it in fulfilling its responsibilities. The committee reports directly to the Board and has responsibilities as set out below, for financial reporting, internal control and risk management, internal audit, external audit, and whistleblowing. The Terms of Reference of the Audit Committee including its role and the authority delegated to it by the Board, should be made publically available.

## **Authority**

The Audit Committee is authorised by the Board to:

- a) Investigate any activity within these terms of reference
- b) Seek any information that it requires from any employee, and all employees are directed to co-operate with any request made by the committee; and
- c) Obtain external legal or other independent professional advice where it deems this necessary.

## **Membership and attendance at meetings**

Members shall be appointed by the Group Board on the recommendation of the Nominations Committee, in consultation with the AC Chairman.

Appointments should be for a period of up to three years, extendable at the discretion of the Board by no more than two additional three year periods, provided the Director still meets the criteria for membership of the committee.

The committee shall comprise of at least three independent non-executive directors of the Group Board, at least one of whom shall have recent and relevant financial experience. The committee as a whole shall have competence relevant to the sector in which the group operates.

The Chairman of the Audit Committee shall be appointed by the Group Board. (The role is currently designated as SMF 11 under the regulatory Senior Managers Regime). The Chairman of the Group Board will not be a member of the audit committee.

A quorum shall be any two members. In the absence of the Chairman, the other members of the Committee will elect a chairman for the meeting from among their number.

Other regular attendees at meetings will include the Chief Executive, Chief Financial Officer (CFO), Chief Risk Officer (CRO) , Head of Internal Audit Services and a representative of the external auditors, as well as other management, as the committee feels is appropriate and necessary. Any other board director may attend meetings having consulted the committee chairman.

There should be at least one meeting a year, or part thereof, where the external auditors and internal auditors attend without management present, to discuss matters relating to their remit.

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The Group Secretary or their nominated representative shall be secretary of the audit committee. The committee's work will be supported by the maintenance of a rolling agenda covering regular activities undertaken by the committee in the fulfilment of its responsibilities. Papers and minutes will be circulated in a timely manner to enable proper consideration of reports and issues.

## **Frequency of meetings**

Meetings shall be held not less than four times a year, and where appropriate should coincide with key dates in the Group's financial reporting cycle.

External auditors or internal auditors may request a meeting if they consider that one is necessary.

## **Responsibilities**

The responsibilities of the committee are to;

### Financial Reporting

Monitor the integrity of the financial statements of the Group including the interim and annual reports, and any other formal announcements relating to the Group's financial performance, reviewing significant financial reporting issues and judgements contained in them, prior to submission and approval by the Board.

Review, and challenge where necessary, the actions and judgements of management, with a focus on:

- Critical accounting policies and practices, and any changes to them
- Clarity and completeness of disclosures in the financial statements and the context in which statements are made
- Significant estimates or areas of judgement
- Unusual transactions occurring in the period and how they are treated and disclosed
- Going concern assumptions
- Significant adjustments arising from the external audit, and the views of the external auditor
- Compliance with accounting standards, regulatory, stock exchange, and legal requirements
- Whether the annual report and accounts taken as a whole are fair, balanced, and understandable and provide the information necessary for members to assess the group's performance, business model, and strategy

Following its review, if the Audit Committee is not satisfied with any aspect of the proposed financial reporting by the Group, it shall report its views to the Group Board.

The committee shall approve any reports of its activities as required by the Corporate Governance Code prior to inclusion in the Group's Report and Accounts.

### Internal Control and Risk Management

Review effectiveness of the group's internal control and risk management systems to identify, assess, manage and monitor financial and other risks including those for ensuring compliance with the

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regulatory environment in which the group operates, by receiving reports from Internal Audit, Risk, and group functions, and external parties as appropriate.

To periodically review the Society's resolution pack and recovery plan arrangements (PRA rulebook). Prior to submission of the recovery plan the PRA also expects firms to provide a self-assessment of the recovery plan, ideally through a review agreed by the audit committee. (SS9/17 section 2.84).

Review and approve the statements to be included in the annual report concerning internal controls and risk management.

## Internal Audit

Monitor and review effectiveness of the internal audit function in the context of the group's risk management system, ensuring that professional standards are applied, resource is adequate in terms of number, skills, knowledge, and a standing within the group to execute its responsibilities in an independent and objective manner. A formal review will be carried out internally on an annual basis, and Internal Audit will be subject to an independent and objective external assessment at least every five years.

Approve the strategy and annual audit plan, and any changes to it.

Approve annually the Internal Audit Services Terms of Reference.

Receive reports on the results of the internal auditor's work, and review and monitor management's responsiveness to the internal auditor's findings and recommendations.

Approve the decisions regarding appointment, remuneration, performance evaluation, or dismissal of the Head of Internal Audit. (The role is designated as SMF 5 under the regulatory Senior Managers Regime). In addition to the consideration given in the in the annual appraisal by the Audit Committee Chair of the Head of Internal Audit Services, their objectivity and independence will also be explicitly discussed with the Audit Committee each year after the post holder has been in post for seven years.

To ensure that the Head of Internal Audit Services has direct access to the Board Chairman and the Audit Committee, and is accountable to the Audit Committee.

## External Audit

The committee shall oversee the process for selection, appointment, reappointment and removal of the external auditor, ensuring that the audit service contract is placed out to tender in accordance with Corporate Governance good practice, and make appropriate recommendations to the Board to be put to the members for approval at the AGM. If the Board does not accept the Audit Committee's recommendation regarding the appointment, reappointment and removal of the external auditors, the Audit Committee shall include a statement explaining why the Board has taken a different stance in the annual report.

Oversee the relationship with the External Auditor, including (but not limited to) reviewing and approving the terms of engagement and remuneration, and the level of audit and non-audit fees to

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ensure their independence and objectivity. This includes setting and applying a formal policy, reviewed annually, for the *Provision of Audit and Non Audit Related Services by the Society's External Auditor*.

Assess annually the qualification, expertise and resources, effectiveness, independence and objectivity of the external auditors.

Consider and approve the nature and scope of the audit and to review the auditors' quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements.

Consider any issues arising from the work of external audit including a review of the content of the external auditor's management letter, before consideration by the Board in order to assess whether it is based on a good understanding of the company's business and establish whether recommendations have been acted upon and, if not, the reasons why they have not; and management's response.

At the end of the annual audit cycle, formally review and assess the effectiveness of the audit process.

## Whistle Blowing

Review the company's procedures for detecting fraud and whistle blowing and ensure that arrangements are in place by which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or any other matters; and to ensure that arrangements are in place for independent investigation and appropriate follow up action.

The Committee will also assist the Senior Manager Function (SMF) role holders within the scope of this committee to fulfil their prescribed responsibilities.

## **Reporting**

The minutes will be circulated to the Board and the chairman of the Committee shall update Group Board members of the committee's business at its monthly meetings.

A separate section of the annual report should describe the work of the committee in discharging its responsibilities.

The committee members shall conduct an annual review of; their effectiveness, and these terms of reference, and make recommendations to the Group Board for ratification.

Where disagreements between the Audit Committee and the Board cannot be resolved, the Audit Committee shall report the issue to the members as part of the report on its activities in the company's annual report.