

Audit Committee (AC)

Terms of Reference

The purpose of the Board Audit Committee (“the Committee”) is to give detailed consideration to audit matters for the Society. The Committee is a committee of the Board and has delegated authority from the Board in respect of the powers and responsibilities set out in these Terms of Reference.

1. Membership

- 1.1 The Committee shall comprise at least three members, all of whom shall be independent non-executive directors. The Committee shall include at least one member of the Risk Committee. At least one member should have recent and relevant financial experience, and the Committee as a whole shall have competence relevant to the sector in which the Society operates.
- 1.2 Members of the Committee shall be appointed by the Board on the recommendation of the Nominations Committee in consultation with the Chair of the Audit Committee. Appointments shall be for a period of up to three years which may be extended for up to two additional three-year periods, provided the director still meets the criteria for membership of the Committee.
- 1.3 Only members of the Committee have the right to attend Committee meetings. However, the Chief Finance Officer, Head of Finance, Chief Executive Officer, Chief Risk Officer and Chief Operations Officer, and representatives from the External Auditors and Internal Auditors, shall be expected to attend meetings of the Committee on a regular basis and other individuals may be invited to attend all or part of any meeting as and when appropriate. The Chair of the Committee may request that any attendee withdraw from all or part of a meeting.
- 1.4 The Board shall appoint the Committee Chair. In the absence of the Committee Chair and/or an appointed deputy at a Committee meeting, the remaining members present shall elect one of themselves to chair the meeting.
- 1.5 The current Committee members are:
 - Colin Brereton (NED)– Chair
 - Trevor Barratt (NED)
 - Marian Evans (NED)
 - James Greenwood (NED)

2 Secretary

The Deputy Company Secretary or their nominee shall act as Secretary to the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

3 Quorum

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

4 Frequency and Administration of Meetings

- 4.1 The committee shall meet at least [three] times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 4.2 Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Society's governance, including the Board Chair, the Chief Executive, the Chief Finance Officer and the external and internal lead audit partners.

5 Notice of Meetings

- 5.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of the Committee Chair or any of its members, or at the request of the External Audit lead partner or Internal Audit lead partner if they consider it necessary.
- 5.2 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.

6 Minutes of Meetings

- 6.1 The Secretary shall minute the proceedings and decisions of all Committee meetings, including recording the names of those present and in attendance. The Secretary shall record any conflicts of interest reported at the meeting.
- 6.2 Draft minutes of Committee meetings shall be circulated to all members of the Committee. Once approved, minutes will be available to all members of the Board unless, exceptionally, it would be inappropriate to do so.

7 Engagement with stakeholders

- 7.1 The Committee Chair should attend the annual general meeting to answer any member questions on the Committee's activities. In addition the Committee Chair should seek engagement with stakeholders on significant matters related to the Committee's areas of responsibility.

8 Duties and Objectives

Annual Report & Accounts having regard to matters communicated to it by the External Auditors:

- 8.1 The Committee will monitor the integrity of the Society's financial statements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgments which they contain.

- 8.2 The Committee will provide advice to the Board as to whether the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for the Members to assess the Society's financial position and performance, business model and strategy.
- 8.3 The Committee will specifically review and challenge where necessary on behalf of the Board;
- a. the suitability and consistent application of accounting policies;
 - b. the significant judgments made and estimates used to ensure they are reasonable and prudent;
 - c. whether the Society has followed appropriate accounting standards;
 - d. the clarity of disclosure in the financial statements;
 - e. the appropriateness of the Going Concern basis of accounting and the long-term viability statement made by the Board.
- 8.4 Where the Committee is not satisfied with any aspect of the proposed financial reporting it shall report its views to the Board.

8.5 Internal Controls and Risk Management Systems

Having regard to reports received from Internal and External Auditors, the Committee will review the Society's internal financial controls and, in conjunction with the Risk Committee, will review the internal control and risk management systems.

8.6 Internal Audit

The Committee will:

- 8.6.1 Make recommendations to the Board concerning the appointment, reappointment and removal of the firm providing internal audit services.
- 8.6.2 Review and approve the terms of engagement for the delivery of internal audit services, as set out in the Internal Audit Charter.
- 8.6.3 Review and approve the annual internal audit plan and the longer-term strategic plans and ensure that Internal Audit has adequate resources and specialist technical expertise to enable it to perform its function effectively and in accordance with relevant professional standards. The Committee shall also ensure that internal audit plans are aligned to the key risks of the business.
- 8.6.4 Review reports addressed to the Committee from Internal Audit and ensure that management's responses to the findings and recommendations of Internal Audit are appropriate and that issues are being addressed on a timely basis.
- 8.6.5 Meet the Internal Auditors at least once a year, without management being present, to discuss the internal audit, its remit and any issues arising from reviews performed. In addition, Internal Audit shall be given the right of direct access to the Chair of the Board and the Chair of the Committee and is directly accountable to the Committee.

- 8.6.6 Agree the fees for the outsourced Internal Audit function, ensuring that the resource applied and level of fees is appropriate for the Internal Audit work to be carried out effectively.
- 8.6.7 Make an annual assessment of the independence and objectivity of the firm providing internal audit services, ensuring that any other services provided by that firm do not impair that objectivity or independence.
- 8.6.8 Make an annual assessment of the performance and effectiveness of the internal audit function.
- 8.6.9 Carry out a thorough and robust review of internal audit every six years to determine whether the service should be put out to tender, and ensure that, at least, every nine years, the Internal Audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services of the incumbent auditor with those of other firms. The Committee will oversee the selection process arising out of the tender.

8.7 External Audit

The Committee shall:

- 8.7.1 Consider and make annual recommendations to the Board, to be put to members for approval at the AGM, in relation to the appointment, re-appointment and removal of the Society's External Auditor. The Committee will oversee any selection process for a new Auditor and if an Auditor resigns the Committee will investigate the issues leading to this and decide whether any action is required.

Oversee the relationship with the External Auditor including (but not limited to):

- a. approval of audit fees for audit and non-audit services and review whether the level of audit fees is appropriate to enable an adequate audit to be conducted.
- b. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- c. assessing annually the independence and objectivity of the External Auditors, taking into account relevant UK and EU professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services.
- d. monitoring the Auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner.
- e. assessing annually the performance, qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external Auditor on their own internal quality procedures.
- f. satisfying itself that there are no relationships between the Auditor and the Society (other than in the ordinary course of business) which could adversely affect the Auditor's independence and objectivity.

- g. evaluating the risks to the quality and effectiveness of the financial reporting process in the light of the external Auditor's communications with the Committee.
- 8.7.2 Meet regularly with the External Auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee will also meet the External Auditor at least once a year, without management being present, to discuss the Auditor's remit and any issues arising from the audit.
- 8.7.3 Review and discuss the annual audit plan to ensure that it is consistent with the scope of the audit engagement and addresses key audit risks.
- 8.7.4 Discuss with the External Auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team.
- 8.7.5 Review the findings of the audit with the External Auditor. This will include but not be limited to, the following:
 - a. a discussion of any major issues which arose during the audit;
 - b. any accounting and audit judgements;
 - c. misstatements identified during the audit.

The Committee will also:

- 8.7.5.1 Review any representation letter(s) requested by the External Auditor before they are signed by management.
- 8.7.5.2 Review the management letter and management's response to the Auditor's findings and recommendations.
- 8.7.6 Develop and recommend to the Board a policy on the supply of non-audit services by the External Auditor, taking into account any relevant ethical guidance on the matter.
- 8.7.7 Develop and oversee the selection procedure for the appointment of the audit firm, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process.
- 8.7.8 Ensure that, at least once every five years, the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services of the incumbent Auditor with those of other firms. The Committee shall oversee the selection process arising out of the tender.

9 Reporting Responsibilities

- 9.1 The Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 9.2 The Committee will report annually to the Board on how it has discharged its responsibilities. This report shall include:

- a. the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, including whether the accounts taken as a whole are fair, balanced and understandable.
- b. a summary of the internal audit reviews undertaken during the year, including significant findings and how these have been addressed.
- c. significant control weaknesses identified by the External Auditors.
- d. information on the performance, effectiveness, independence and objectivity of the External and Internal Auditors and recommendations on their re-appointment.

9.3 The Committee shall compile a report of its activities to be included in the Society's annual report. The report should describe the work of the Committee, including:

- a. the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;
- b. an explanation of how the Committee has assessed, the independence and effectiveness of the external audit process and the approach taken to the appointment or re-appointment 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 re-tendering plans;
- c. an explanation of how auditor independence and objectivity are safeguarded if the external auditor provides non-audit services, having regard to matters communicated to it by the auditor and all other information requirements.

In compiling the reports referred to in 9.1, 9.2 and 9.3, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Society is a going concern and the inputs to the Board's viability statement.

9.4 The Committee will make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed, and adequate time should be available for Board discussion when necessary.

9.5 Work and liaise as necessary with all other committees ensuring interaction between committees and with the Board is reviewed regularly.

10 Other Matters

The Committee shall:

10.1 Oversee any investigation of activities which are within its terms of reference.

10.2 Ensure that a periodic evaluation of the Committee's performance is carried out.

- 10.3 At least annually, review its 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.
- 10.4 Give due consideration to all relevant laws and regulations, the provisions of the Code and published guidance, and any other applicable rules, as appropriate.
- 10.5 Be responsible for the oversight of the co-ordination of the internal and external auditors.

11 Authority

The Committee is authorised to:

- 11.1 Request the attendance of any employee at a meeting of the Committee and/or seek any information it requires from any employee of the Society in order to perform its duties.
- 11.2 Delegate any matter or matters to another Committee or person(s) as it deems appropriate.
- 11.3 Obtain, at the Society's expense, independent legal, accounting or other professional advice on any matter the Committee reasonably believes it necessary to do so.
- 11.4 The Committee Chair and the Society Secretary are authorised by the Board to review and approve any non-material change required to be made to the Committee's Terms of Reference. Any such change should be reported to the Board.
- 11.5 Have access to sufficient resources in order to carry out its duties, including access to the Governance Team for advice and assistance as required.
- 11.6 Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.
- 11.7 Have the right to publish in the Society's Annual Report details of any issues that cannot be resolved between the Committee and the Board. If the Board has not accepted the Committee's recommendation on the external auditor appointment, reappointment or removal, the annual report should include a statement explaining the Committee's recommendation and the reasons why the Board has taken a different position.

Date of Approval

January 2024

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Date of Next Review

January 2025

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