

## **Terms of Reference**

### **Audit Committee**

*Updated June 2020*

#### **1 Membership and quorum**

- 1.1 The Committee is appointed by the Board.
- 1.2 The Committee comprises three non-Executive Directors.
- 1.3 The Committee membership must include at least one non-Executive Director with competence in accounting and/or auditing.
- 1.4 The majority of the Committee members, and the Committee Chair, must be classified as independent.
- 1.5 In the absence of the Committee Chair the remaining members present shall elect one of themselves to chair the meeting.
- 1.6 A quorum comprises two committee members.

#### **2 Attendees**

- 2.1 In addition to the committee members the following are in attendance
  - Chief Executive
  - Finance Director
  - Operations and Sales Director
  - Compliance Manager
  - Chief Risk Officer
  - Head of Risk & Company Secretary
  - Internal Auditors
  - External Auditors
- 2.2 The Society Secretary is the Head of Risk & Company Secretary. In the event of the Society Secretary being unavailable, the Chair will ask one of the attendees to be the Secretary for the meeting.
- 2.3 Other persons may attend all, or part, of any meeting at the invitation of the Committee Chair.

#### **3 Frequency of meetings**

- 3.1 Meetings are held four times a year, normally December, March, June, October.
- 3.2 The Chair can convene additional meetings if they consider it necessary.
- 3.3 A quorum is required for decisions to be made.

#### **4 Notice of meetings**

- 4.1 Meetings shall be scheduled annually in advance.
- 4.2 Ad hoc meetings shall be convened by the Society Secretary at the request of the Chair.
- 4.3 Supporting papers shall normally be circulated, by the PA to the Executive Directors, one week in advance of the meeting.

## **5 Minutes**

- 5.1 The Society Secretary will take the minutes of the meeting.
- 5.2 Draft minutes will be provided to the Chair and once approved will be circulated to the other attendees.

## **6 Reporting**

- 6.1 The Audit Committee chair formally reports proceedings from each meeting to the Board.
- 6.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit.

## **7 Authority**

- 7.1 The Committee is authorised to request any information it requires and to seek independent advice where it believes this is necessary to discharge its primary purpose and responsibilities.

## **8 Responsibilities**

### *Financial reporting*

- 8.1 The Committee is responsible for providing appropriate oversight, independently of the Executive, to ensure that the interests of members and the Society's other key stakeholders are properly protected in relation to financial reporting, internal control and regulatory compliance.

The Committee achieves this by:

- Reviewing the processes followed to produce, and validate the integrity of, the financial statements including:
  - reducing the risk of material misstatement (including fraud) through the use of appropriate accounting standards
  - approving, on advice, the most appropriate accounting policies and ensuring they are consistently applied
  - satisfying itself that the disclosures made are clear, fair, balanced and understandable.
- Reviewing the Society's annual accounts and the significant judgements in them prior to recommending Board approval.
- Explaining to the Board how the statutory audit contributed to the integrity of financial reporting and explaining what the role of the Committee was in this process.
- Carrying out a review on an annual basis of the adequacy and effectiveness of the Society's assurance frameworks (including the quality and content of management information provided to it) and reporting the overall conclusion to the Board.

### *Internal and External Audit*

- 8.2 The Committee has specific responsibility for reviewing and monitoring the independence, expertise, objectivity, performance and effectiveness of the Society's internal and external auditors. In so doing the Committee will:
  - Make recommendations to the Board in relation to the appointment, re-appointment and removal of the external and internal auditors as required (ensuring the external audit contract is put out to tender at least once every ten years and that the tenure of the external auditors does not exceed 20 years).
  - Approve the auditors' audit plans, budgets and engagement letters, including fees.
  - Consider reports and recommendations from the auditors, and progress against these.
  - Have a private meeting with the auditors at least annually.

- Ensure there are no impediments restricting the independence of the auditors.
- Examine any differences of opinion between the auditors and the Society's management, ensuring there are no restrictions on the right of the auditors to raise or challenge material issues.
- Assess the effectiveness of the internal audit inspection system in the context of the Society's overall risk management framework and ensure that internal audit does not place undue reliance on the work of the compliance, risk management and finance functions.
- Discuss any major issues arising as a result of the external audit, review any representation letters requested by the external auditor, and assess the management letter and management's responses to the external auditor's findings and recommendations.
- Review and approve any proposals above defined thresholds (currently £10k) to engage external auditors in the supply of non-audit services, taking into account relevant ethical guidance.

#### *Internal controls*

8.3 The Committee also has the following general duties:

- Approve the Compliance Plan, ensuring that it is aligned with, but does not affect the independence of, the Internal Audit Plan.
- Assess whether the Compliance function has the necessary authority, resources, expertise and access to all relevant information and that members of the Compliance function do not perform roles or activities they monitor.
- Consider reports and recommendations from the Chief Risk Officer, and the Head of Risk and Head of IT & Business Change where applicable.
- Consider laws and regulations and the provisions of the UK Corporate Governance Code.
- Ensure appropriate whistle blowing arrangements are in place.
- Make the Risk Committee aware of any matters which have a bearing on the Society's risk profile.

8.4 The Committee also ensures that the Chief Risk Officer, Finance Director and the Head of Risk have direct access to the Chair of Audit.

#### *Recommendations to Board*

8.5 The Committee shall review and make recommendations to the Board for approval in relation to:

- Final approval of the annual accounts and summary financial statement (members' review), including statements and reports.
- Appointment and termination of the external auditor.
- Board level policies as follows:
  - Conflicts of interest
  - Code of Conduct
  - Whistle Blowing

## **9 MI Reports**

9.1 The following reports shall be provided for each meeting:

- Compliance assurance report (Compliance Manager)
- Internal audit report (Internal auditor)
- External audit report (External auditor)

## 10 Rolling agenda

10.1 The Chair determines the agenda for each meeting, in conjunction with a relevant member of the Executive team.

10.2 In addition to the MI reports detailed above, there is a rolling agenda as follows:

	<b>Specific topics</b>	<i>Presented by</i>	<i>Approved by</i>
<b>Dec</b>	▪ Final accounts – recommendation for approval	<i>Finance Director</i>	<i>Board</i>
	▪ IT risks and controls	<i>Operations &amp; Sales Director</i>	<i>n/a</i>
	▪ Compliance and Internal audit – effectiveness review	<i>Chief Risk Officer</i>	<i>n/a</i>
	▪ Management information review	<i>Chief Risk Officer</i>	<i>n/a</i>
	▪ Meeting with the auditors without the Executives present		<i>n/a</i>
<b>Mar</b>	▪ Conflicts of Interest Policy and Code of Conduct	<i>Head of Risk &amp; Co Secretary</i>	<i>Board</i>
	▪ Regulatory Reporting Committee Report	<i>Finance Director</i>	<i>n/a</i>
	▪ Committee review and terms of reference	<i>Chief Risk Officer</i>	<i>n/a</i>
	▪ External Audit fee proposal	<i>External Auditor</i>	<i>Audit</i>
<b>Jun</b>	▪ External audit strategy proposal	<i>External Auditor</i>	<i>Audit</i>
	▪ Operation and effectiveness of whistle blowing arrangements, including Whistle Blowing Policy annual review	<i>Chief Executive/Head of HR &amp; People Development</i>	<i>Board</i>
	▪ IT risks and controls	<i>Operations &amp; Sales Director</i>	<i>n/a</i>
	▪ Operational Resilience Review	<i>Operations &amp; Sales Director</i>	<i>n/a</i>
<b>Oct</b>	▪ Corporate governance disclosures	<i>Head of Risk &amp; Co Secretary</i>	<i>Board</i>
	▪ Accounting policies	<i>Finance Director</i>	<i>Board</i>
	▪ External interim audit	<i>External Auditor</i>	<i>Audit</i>
	▪ Internal Audit plan	<i>Internal Auditor</i>	<i>Audit</i>
	▪ Compliance strategy & plan	<i>Chief Risk Officer</i>	<i>Audit</i>
	▪ Regulatory Reporting Committee Report	<i>Finance Director</i>	<i>n/a</i>