

<b>Purpose</b>	The primary responsibilities of the Committee relate to assisting the Board in fulfilling its oversight responsibilities including: the integrity of financial reporting and reviewing significant financial reporting judgements contained in them; the systems of internal control; the internal and external audit process; compliance with applicable laws and regulations and the Society's ethical and business standards of conduct.
----------------	---

## **1. Membership**

- 1.1 The Committee shall have at least three members. The Committee shall include at least one member of the Risk Committee and where possible, one member of the Remuneration Committee. Members of the Committee shall be appointed annually by the Board, on the recommendation of the Nominations Committee in consultation with the Chairman of the Audit Committee.
- 1.2 All members of the Committee shall be independent non-executive directors at least one of whom shall have recent and relevant financial experience and with competence in accounting and/or auditing. The Chairman of the Board shall not be a member of the Committee.
- 1.3 The internal and external auditors shall be invited to attend meetings.
- 1.4 Only members of the Committee have the right to attend Committee meetings. Other individuals including Non-Executive Directors and Senior Management may be invited to attend all or part of any meeting as and when appropriate.
- 1.5 Members of the Committee may participate in a meeting by means of a conference call where all persons participating can hear each other at the same time and participation by such means shall constitute presence at a meeting.
- 1.6 The Board shall appoint the Committee Chairman. In the absence of the Committee Chairman and/or an appointed deputy at the Committee meeting, from the remaining members present.

## **2. Secretary**

- 2.1 The Secretary and Head of Compliance or their nominee, shall act as the Secretary of 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**

- 3.1 The quorum necessary for the transaction of business shall be 2 members.

## **4. Frequency of Meetings**

- 4.1 The Committee shall meet at least four 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 Chairman and to a lesser extent the other Committee members will maintain a dialogue with key individuals involved in the Society's governance, including the Board Chairman, the Chief Executive, the Finance Director, the External and Internal Auditors.

## **5. Notice of Meetings**

- 5.1 Meetings of the Committee shall be arranged by the Secretary of the Committee at the request of any of its members or at the request of the Internal or External auditors 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 5 days prior to the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.
- 5.3 Notices, agendas and supporting papers can be sent in electronic form where the recipient has agreed to receive documents in such a way.

## **6. Minutes of Meetings**

- 6.1 The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.

- 6.2 The Secretary shall record any conflicts of interest declared at the meeting.
- 6.3 Draft minutes of Committee meetings shall be shall be agreed with the Committee Chairman and then circulated promptly to all members of the Committee, unless it would be inappropriate to do so in the opinion of the Committee Chairman.

## **7. Duties**

A summary of key duties in respect of each of these risks is detailed below:

### **7.1 Financial Reporting**

- 7.1.1 The Committee shall monitor the integrity of the financial statements of the Society including its annual and half-yearly reports, interim management statements and any other formal announcement relating to its financial performance, and review and report to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the Auditor.
- 7.1.2 In particular, the Committee shall review and challenge where necessary:
- the application of significant accounting policies and any changes to them
  - the methods used to account for significant or unusual transactions where different approaches are possible
  - whether the Society has followed appropriate accounting policies and made appropriate estimates and judgments, taking into account the views of the External Auditor on the financial statements and
  - all material information presented with the financial statements including the strategic report and corporate governance statements relating to audit and risk management.
- 7.1.3 Notwithstanding this clause the Board shall be responsible for approving the Society's Annual Statement and Accounts.
- 7.1.4 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Society, it shall report its views to the Board.

### **7.2. Narrative Reporting**

Where requested by the Board, the Committee should review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair balanced and understandable and provides the information necessary for members to assess the Society's performance, business model and strategy and whether it informs the Board's statement in the annual report on these matters that is required under the Code.

### **7.3 Internal Controls and Risk Management Systems**

The Committee shall:

- 7.3.1 keep under review and specifically the adequacy and effectiveness of the Society's internal financial controls that identify, assess, manage and monitor financial risks and other internal control and risk management systems and
- 7.3.2 review and approve the statements to be included in the Annual Report and Accounts concerning internal controls and risk management.

### **7.4 Compliance, Whistleblowing and Fraud**

The Committee shall:

- 7.4.1 review the adequacy and security of the Society's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action

- 7.4.2 review the Society's procedures for detecting fraud
- 7.4.3 review the Society's systems and controls for the prevention of bribery and receive reports on non-compliance
- 7.4.4 review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the Society's anti-money laundering systems and controls
- 7.4.5 review and assess the annual Compliance Plan
- 7.4.6 review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Society's compliance function.

## 7.5 Internal Audit

The Committee shall:

- 7.5.1 oversee the relationship with the Internal Auditor including (but not limited to):
- 7.5.2 approval of remuneration and that the level of fees is appropriate to enable an adequate audit to be conducted
- 7.5.3 monitor and review the effectiveness of the Internal Audit function in the context of the Society's overall Risk Management system and the work of Compliance, Finance and the External Auditor
- 7.5.4 approve the appointment and removal of the Internal Auditors
- 7.5.5 review and approve the role and mandate of Internal Audit, monitor and review the effectiveness of its work and annually appraise the Internal Audit Charter, ensuring it is appropriate for the needs of the Society
- 7.5.6 review and approve the annual Internal Audit Plan to ensure it is aligned to the key risks of the business and receive regular reports on work carried out
- 7.5.7 review and monitor management's responsiveness to the findings and recommendations of the Internal Auditor
- 7.5.8 ensure Internal Audit had unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions and that Internal Audit evaluates the effectiveness of these functions as part of its Internal Audit Plan and ensure that Internal Audit is equipped to perform in accordance with appropriate professional standards for Internal Audit
- 7.5.9 meet the Internal Auditor at least once a year, without management being present, to discuss its remit, any issues arising from the internal auditors work and determine whether it is satisfied that the quality, experience and expertise of Internal Audit is appropriate for the Society. In addition, the Internal Auditor shall be given the right of direct access to the Chairman of the Board and to the Committee.

## 7.6 External Audit

The Committee shall:

- 7.6.1 consider and make 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.
- 7.6.2 develop and oversee the selection process for the appointment of the audit firm, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process.
- 7.6.3 If an external auditor resigns, investigate the issues leading to this and decide whether any action is required
- 7.6.4 oversee the relationship with the External Auditor including (but not limited to):
  - approval of remuneration, including both fees for audit and non-audit services and ensure that the level of fees is appropriate to enable an effective and high quality audit to be conducted
  - approval of terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit
  - assessing annually the independence and objectivity of the auditors taking into account relevant UK law, regulation, the Ethical Standard and other professional requirements and the

relationship with the auditor as a whole, including any threats to the External Auditor's independence, the safeguards applied to mitigate those threats including the provision of any non-audit services

- satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Society (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity
  - agreeing with the Board a policy on the employment of former employees of the Society's auditor taking into account the Ethical Standard and legal requirements, then monitoring the application of this policy
  - monitoring the auditor's process for maintaining independence, its compliance with relevant UK law, regulation other professional requirements and the Ethical Standard including the guidance on the rotation of audit partner and staff, the level of fees paid by the Society compared with the overall fee income of the firm, office and partner and other related requirements
  - assessing annually the qualifications, expertise and resources and independence of the auditor and the effectiveness of the audit process, which shall include a report from the External Auditor on its own internal quality procedures
  - seeking to ensure co-ordination of External Audit with the activities of the Internal Audit function
  - evaluating the risks to the quality and effectiveness of the financial reporting process in light of the External Auditor's communications with the Committee
- 7.6.5 meet regularly with the External Auditor, (including once at the planning stage before the audit and once after the audit at the reporting stage) and, at least once a year, meet with External Audit without management being present, to discuss the auditor's remit and any issues arising from the audit
- 7.6.6 discuss with External Audit the factors that could affect audit quality and review and approve the annual Audit Plan ensuring that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team
- 7.6.7 review the findings of the audit with the External Auditor. This shall include but not be limited to, the following:
- a discussion of any major issues which arose during the audit
  - the auditor's explanation of how the risks to audit quality were addressed
  - key accounting and audit judgements
  - levels of errors identified during the audit
  - the effectiveness of the audit including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee
  - the auditor's view of their interactions with senior management
- 7.6.8 review any representation letter(s) requested by External Audit before they are signed by management
- 7.6.9 review the management letter and management's response to the auditor's findings and recommendations; and
- 7.6.10 develop and recommend to the Board the Society's formal policy on the provision of non-audit services by the auditor including approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:
- threats to the independence and objectivity of the external auditor and any safeguards in place
  - the nature of the non-audit services
  - whether External Audit is the most suitable supplier of the non-audit service

- the fees for the non-audit services, both individually and in aggregate, relative to the audit fee and
- the criteria governing compensation

## **8. Reporting Responsibilities**

- 8.1 The Committee Chairman shall report formally to the Board after each meeting on all matters within its duties and responsibilities and shall also report to the Board on how it has discharged its responsibilities. The report shall include:
- the significant issues that it considered in relation to the financial statements (required under 7.1.1) and how these were addressed.
  - Its assessment of the effectiveness of the external audit process (required under 7.5.7) the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans and
  - Any other issues on which the Board has requested the Committee's opinion
- 8.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 8.3 The Committee shall produce a report on its activities to be included in the Society's Annual Report. The report should include an explanation of how the Committee has addressed the effectiveness of the external audit process, the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor and all other information requirements set out in the Code.
- 8.4 In compiling the reports referred to in 8.1 and 8.3, 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.

## **9. Other matters**

The Committee shall:

- 9.1 have access to sufficient resources in order to carry out its duties, including access to the Society Secretary for assistance as required
- 9.2 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members
- 9.3 give due consideration to relevant laws and regulations, the provisions of the Code and any rules or regulations which may apply
- 9.4 be responsible for co-ordination of the Internal and External Auditors
- 9.5 oversee any investigation of activities which are within its Terms of Reference
- 9.6 arrange for periodic reviews of its own performance and, 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.
- 9.7 work and liaise as necessary with all other Board Committees taking particular account of the impact of risk management and internal controls being delegated to different committees

## **10. Authority**

- 10.1 The Committee is authorised by the Board to:
- seek any information it requires from any employee of the Society in order to perform its duties.

- obtain, at the Society's expense, independent legal, accounting or other professional advice on any matter within its terms of reference
- call any employee to be questioned at a meeting of the Committee as and when required.
- 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.

**11. Annual General Meeting**

- 11.1 The Committee Chairman will attend the Annual General Meeting (AGM) to answer any questions from members regarding the activities of the Committee.