

(h) Board Delegated Powers

Audit Committee – Terms of Reference

Constitution

The Audit Committee (“Committee”) is a committee of the Board established to give detailed consideration to audit matters for the Society and each of its operating subsidiaries.

Compliance with Regulatory Requirements and Best Practice Guidelines

These terms of reference for the Audit Committee comply with the FCA Handbook and the UK Corporate Governance Code issued by the FRC (taking account of related guidance on audit committees issued by the FRC).

Membership

- a. Appointments to the Audit Committee shall be made by the Board on the recommendation of the Nominations and Corporate Governance Committee following consultation with the Audit Committee Chairman. The Chairman of the Committee shall be appointed by the Board in the absence of the Committee Chairman, the remaining members present shall elect one of themselves to chair the meeting.
- b. The Committee shall consist of not less than three independent, Non-Executive members of the Board. A quorum shall be two members. The Chairman of the Board shall not be a member of the Committee. At least one member should have recent and relevant financial experience, which must include competence in accounting or auditing, or both. The Audit Committee as a whole must have competence relevant to the sector in which the Society operates.
- c. The overall skills, knowledge and experience of the Committee shall be formally assessed each time there is a change in membership and reviewed on an annual basis.
- d. The current Committee members are:
 - A D Morgan – Chairman
 - N Hingorani-Crain
 - T Barratt
- e. Only members of the Committee have the right to attend Committee meetings. However, the Committee may invite or require any Directors or members of staff to attend all or part of any meeting. Generally, the Chief Executive, the Finance Director, the Financial Controller and the Head of Risk and Compliance will be invited to attend each meeting. Any Director can, however, request to attend any meeting of the Committee.
- f. The Internal and External Auditors will be invited to attend each meeting of the Committee.

Frequency and Administration of Meetings

- a. Meetings shall be held not less than four times per year, including on at least one occasion to receive the Society's financial statements. The Audit Committee Chairman may convene a special meeting of the Committee as required. Outside of the formal meeting programme, the Committee Chairman will maintain a dialogue with key individuals involved in the Society's governance, including the Board Chairman, the Chief Executive, the Finance Director and the external and internal lead audit partners. The Committee Chairman should attend the annual general meeting ("AGM") to answer member questions on the Committee's activities.
- b. The Chairman of the Committee, the External Auditors, Internal Audit, the Head of Risk and Compliance or any Director may request that a meeting of the Committee be held if they consider that one is necessary.
- c. The Assistant Company Secretary or their nominee shall act as Secretary to the Committee and shall ensure, in conjunction with the Finance Director, Finance Controller and Head of Risk and Compliance, that papers are circulated sufficiently in advance of each meeting to facilitate proper consideration of issues.

Objectives & Duties

Annual Report and Accounts having Regard to Matters Communicated to it by the External Auditors:

- a. 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;
- b. 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;
- c. the Committee will specifically review and challenge where necessary on behalf of the Board:
 - i. the suitability and consistent application of accounting policies;
 - ii. the significant judgments made and estimates used to ensure they are reasonable and prudent;
 - iii. whether the Society has followed appropriate accounting standards;
 - iv. the clarity of disclosure in the financial statements;
 - v. the appropriateness of the Going Concern basis of accounting and the long term viability statement made by the Board;
- d. Where the Committee is not satisfied with any aspect of the proposed financial reporting it shall report its views to the Board.

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.

Internal Audit

The Committee will:

- a. Make recommendations to the Board concerning the appointment, reappointment and removal of the firm providing internal audit services.
- b. Review and approve the terms of engagement for the delivery of internal audit services, as set out in the Internal Audit Charter.
- c. 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.
- d. 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.
- e. 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 Chairman of the Board and the Chairman of the Committee and is directly accountable to the Committee.
- f. 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.
- g. 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.
- h. Make an annual assessment of the performance and effectiveness of the internal audit function.
- i. 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.

External Audit

The Committee will:

- a. 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.
- b. Oversee the relationship with the External Auditor including (but not limited to):
 - i. 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;
 - ii. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - iii. 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;
 - iv. monitoring the Auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner;
 - v. 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;
 - vi. 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;
 - vii. 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;
- c. 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.
- d. 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.
- e. 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.
- f. Review the findings of the audit with the External Auditor. This will include but not be limited to, the following:
 - i. a discussion of any major issues which arose during the audit;

- ii. any accounting and audit judgements;
- iii. misstatements identified during the audit;

The Committee will also

- a. Review any representation letter(s) requested by the External Auditor before they are signed by management.
- b. Review the management letter and management's response to the Auditor's findings and recommendations.
- c. 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.
- d. 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.
- e. 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 will oversee the selection process arising out of the tender.

Reports to the Board and to Members in the Annual Report

- a. The Assistant Company Secretary shall circulate the draft Minutes of meetings to the members of the Committee on a timely basis. The Chairman of the Committee (or another committee member on his/her behalf) will make an oral presentation of the salient points to the Board after each meeting.
- b. The Committee will make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed. Including any other issues on which the Board has requested the Committee's opinion.
- c. The Committee will report annually to the Board on how it has discharged its responsibilities. This report will cover, inter-alia:
 - i. 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;
 - ii. a summary of the internal audit reviews undertaken during the year, including significant findings and how these have been addressed;
 - iii. significant control weaknesses identified by the External Auditors;
 - iv. information on the performance, effectiveness, independence and objectivity of the External and Internal Auditors and recommendations on their re-appointment.

- d. A separate section of the Annual Report will also describe the work of the Committee. At a minimum the report will include:
- the significant issues that the Committee considered in relation to the individual statements and how these were addressed;
 - an explanation of how it has assessed, the 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;
 - If the External Auditor provides non-audit services, an explanation of how auditor objectivity and independence are safeguarded.

Other matters

The Committee will:

- 1) Have access to sufficient resources in order to carry out its duties;
- 2) 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;
- 3) Give due consideration to relevant laws, regulations and statements of good practice;
- 4) Be responsible for coordination of the internal and external auditors;
- 5) Oversee any investigation of activities which are within its terms of reference;
- 6) Carry out annual 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.

Authority

The Committee is authorised:

- 1) To seek any information it requires from any employee of the Society in order to perform its duties;
- 2) To obtain, at the Society's expense, outside legal, accounting or other professional advice on any matter the Committee reasonably believes it necessary to do so;
- 3) To call any employee to be questioned at a meeting of the Committee as and when required;
- 4) To 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.