

AUDIT & COMPLIANCE COMMITTEE TERMS OF REFERENCE

1. Responsible: Audit & Compliance Committee Chair **Reports To:** Board

2. Committee:

Chair: Non-Executive Director Appointed by the Board

Members: Additional two Non-Executive Directors appointed by the Board

Others may attend at the invitation of the Committee Chair

3. Membership

- The Audit and Compliance Committee will comprise of a minimum of three members, all of whom will be non-executive directors, and including the Chair of the Risk Committee.
- Each member should be capable of making a valuable contribution to the Committee and be independent of management. At least one member of the Committee should possess 'recent and relevant financial experience'.
- The Chair and all other members of the Committee will be nominated by the full Board.
- In the absence of the Committee Chair one of the remaining members shall be elected to chair the meeting.
- The Chair of the Board will not be a member of the Committee.
- The following are required to attend meetings at the request of the Committee:
 - Chief Executive
 - Finance Director/ Deputy Chief Executive
 - Risk Director
 - Head of Lending
 - Head of Operations
 - Representatives of Internal Auditors
 - Representatives of External Auditors



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- The Committee as a whole should have competence relevant to the Mutual Building Society sector. It is the responsibility of the Committee's Chair to ensure that this is the case.

4. Quorum

- The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretion vested in or exercisable by the Committee.

5. Frequency of meetings

- The Committee shall meet at least four times a year at appropriate times in the reporting compliance and audit cycle and otherwise as required.

6. Notice of meetings

- Meetings of the Committee shall be called by the Chair in accordance with the agreed schedule. Additional meetings may be called by any member of the Committee if they consider it necessary.
- An agenda of items to be discussed together with supporting papers will be sent to all members of the Committee and any other person requested to attend no later than three days prior to the meeting.

7. Minutes of meetings

- Minutes of the proceedings and decisions of all meetings will be kept which will include the names of those present and in attendance.
- Draft minutes of the Committee meeting shall be circulated promptly to all members of the Committee. Once approved the minutes will be formally signed at the next meeting.

8. Duties

The Committee should carry out the duties below.

8.1 Financial reporting

The Committee shall monitor the integrity of the financial statements of the Society, including its annual report and review significant financial reporting issues, judgements which are contained therein, and the findings of the statutory audit.

In particular, the Committee shall review and challenge where necessary:

- The consistency of, and any changes to, accounting policies.
- The methods used to account for significant or unusual transactions where different approaches are possible.
- Whether the Society has followed appropriate accounting standards and made appropriate estimates and judgements, taking account of the views of the external auditors.
- The efficiency and effectiveness of the financial reporting process including the clarity of disclosure in the Society's financial reports and the context in which statements are made.
- All information presented with the financial statements such as the business review and corporate governance statements.

8.2 Financial and internal control systems

The Committee shall:

- Keep under review the adequacy and effectiveness of the financial and internal controls systems.
- Review and approve the statement to be included in the annual report concerning internal controls.
- Recommend to the Board a Society Policy for the Engagement of External Auditors on non-audit work and approve any engagements in accordance with that Policy.



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- Oversee the Society's application of the FCA's policies and procedures on whistleblowing and assess the independence, autonomy and effectiveness of the resolution of any matters subject to a whistleblowing event. It should be noted that the Board has delegated review of the policy on whistleblowing and oversight of the application of that policy to the Risk Committee. Any significant issues arising will be brought to the attention of the Committee by the Chair of the Risk Committee.

8.3 Management Information

The Committee shall:

- Review arrangements for the provision of management information sufficient to enable the Board or Sub Committees to make informed decisions on the management of the business. This review will be performed on an annual basis.

8.4 Internal audit

The Committee shall:

- Monitor and review the effectiveness of the Society's internal audit function, which is outsourced in the context of risk management system, in line with the IIA's Guidance on Effective Internal Audit.
- Approve the appointment and removal of the Internal Auditors.
- Consider and approve the remit of the internal auditors, including the Internal Audit Charter and the annual internal audit plans.
- Review reports from the internal auditors.
- Safeguard the independence of the internal audit function.
- When considered necessary meet with the internal auditors at each meeting, without management being present, to discuss any issues arising from the internal audit work carried out. In addition, the internal auditors shall be given the right of direct access to the Chairs of the Board and the Committee.

8.5 External audit

The Committee shall:

- Make recommendations to the Board, to be put to the members at the AGM, in relation to the appointment, re-appointment and removal of the External Auditors. In the event that it is proposed to retender the external auditor this must be notified through the Annual Report & Accounts.
- Oversee the relationship with the external auditors including recommendations on remuneration, approval of their terms of engagement, any engagement letter issued at the start of the audit and the scope of the audit work to be carried out.
- Review and approve the annual audit plan and ensure it is consistent with the scope of the engagement letter.
- Assess annually the independence of the external auditors and satisfy itself that there are no relationships between the auditors and the Society other than in the normal course of business which could compromise independence.
- Monitor the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Society compared to the overall fee income of the firm, office and partner and any other related requirements.
- Assess annually the qualifications, expertise and resource of the auditors and the conduct and effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures.
- Seek annually from the audit firm information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those regarding the rotation of audit partners and staff.
- Seek to ensure co-ordination with the activities of the Society's internal auditors.

- Meet regularly with the external auditors, including at the planning stage before the audit and after the audit at the reporting stage. If considered necessary the Committee will meet with auditors, without management being present, to discuss any issues arising from the audit.
- Review any representation letter requested by the auditors before it is signed by management.
- Review the management letter and management's responses to the auditor's findings and the recommendations.

8.6 Compliance

The committee shall:

- Ensure that the Society has an effective Compliance Function.
- Approve the annual Compliance Monitoring Plan and receive regular updates on progress against the plan.
- Receive written reports, and other reports as appropriate, from the Compliance Manager at regular intervals.
- Ensure all other compliance requirements have been met including regulatory and statutory reporting.
- Review on a half yearly basis all complaints received by the Society and any action being taken.

9. Reporting responsibilities

- The Committee Chair shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

- The Committee will, via the Chair, report to the Risk Committee any matters identified in relation to risk.
- The Committee shall produce a report of its activities and effectiveness, with regard to the relevant sections of the UK Governance Code. This will include:
 - Confirmation that the Committee has discharged all of the functions required of it by virtue of the Audit Committee section of the PRA Rulebook and SYSC 6 of the FCA Handbook.
 - Confirmation that the Committee has carried out an appropriate review of the Society's internal control and risk management systems and is satisfied with the integrity of financial statements.
 - Confirmation of its monitoring and review of the effectiveness of the compliance and internal audit functions.

10. Committee Management Information

Examples of standard management information which is presented to this Committee on a monthly basis are stored on the Society's network server together with this Terms of Reference document.

11. Other matters

- The Committee will be provided with appropriate and timely training, both in terms of induction for new members and on an ongoing basis.
- The Committee will oversee any investigation of activities which are within its terms of reference.
- Periodic reviews of the Committees performance will be carried out, at least annually, which will include the constitution of the Committee and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board for approval.



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- The Committee may seek any information from any employee of the Society in order to perform its duties. It may also call any employee to be questioned at a meeting of the Committee as and when required.

12. Approval and Review

The above Terms of Reference were approved by the Committee in June 2021 and ratified by the Board on 26 July 2021. This Terms of Reference document will be reviewed on an annual basis.