

## AUDIT AND COMPLIANCE COMMITTEE TERMS OF REFERENCE

### 1. Objectives

The primary objective of the Board Audit & Compliance Committee is to have an oversight of:

- Financial reporting
- Internal financial control
- Internal audit arrangements
- External audit arrangements
- Compliance arrangements

### 2. Membership

The Committee shall be appointed by the Board from amongst the Non-Executive Directors.

### 3. Composition

The Board Audit and Compliance Committee shall comprise a minimum of three Non-Executive Directors.

At least one member, ideally the Chair of the Committee, shall have recent and relevant financial experience including, where possible, a professional qualification from one of the professional accountancy bodies.

The Chair of the Committee should not also be the Chair of the Board. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

The current composition of the Committee and meeting attendees is as follows:

<b>Members/Attendees</b>	<b>Status</b>
Colin Bradley	Chair
Jeremy Cross	Member
Robert Hartley	Member
Gev Lynott	Attendee – Chief Executive
Paul Wheeler	Attendee – Director of Finance & Secretary
Jill Watson	Attendee and Committee Secretary – Risk & Compliance Executive
Melanie Clark	Minutes Secretary
Internal Audit representative(s)	Attendee
External Audit representative(s)	Attendee

### 4. Quorum

A Quorum shall be a minimum of two Committee members.

### 5. Frequency of Meetings

Meetings shall be held not less than 4 times a year, usually at 10am prior to the Board meeting in March, June, September and December and at any other time determined by the Committee. External Auditors and Internal Auditors may request an additional meeting if they consider that one is necessary.

## 6. Attendance

In addition to the members of the Committee and standard attendees, other attendees may be invited to the proceedings. Any member of the Committee may ask the Chair for specific individuals to attend a meeting. Representatives of the Internal and External Auditors shall attend. There should be at least one meeting a year, or part thereof, where the External and Internal Auditors attend without Executive Directors or management present.

## 7. Authority

The Committee is authorised by the Board to take such independent external professional advice as necessary and such advisors may attend the meeting as necessary.

The Terms of Reference of the Committee and any material amendments must be approved by the Board.

## 8. Secretariat

The Risk and Compliance Executive will act as secretary for the Committee and is responsible for maintaining Committee meeting minutes and ensuring that all follow up actions are appropriately assigned, monitored and reported.

The Executive Office Manager will act as Minutes Secretary.

## 9. Agenda and Minutes

The agenda and meeting papers for the Committee meeting will normally be made available 5 calendar days prior to the meeting.

Draft minutes will be provided for review to the Committee Chair within 7 working days following the meeting. Following the Committee Chair's review the draft minutes will be submitted to the Board and copied to all attendees. The Committee Chair will report verbally to the Board on such matters as are appropriate.

## 10. Responsibilities

### External Auditors

- To make recommendations to the Board concerning the selection, appointment, re-appointment, removal and remuneration of the External Auditors; and, in relation to a possible change of External Auditors, to oversee the selection process.
- To annually consider the scope and planning of the external audit including a review of the auditors' engagement letter.
- To annually review their performance in order to assess whether they continue to meet the necessary requirements, and report to the Board.
- To recommend the audit fee to the Board and pre-approve any fees in respect of non-audit services provided by the External Auditors and ensure that the provision of non-audit services does not impair the External Auditors' independence or objectivity.
- Annually, to review the External Auditors' independence, objectivity, skills and resources. Independence in this context embraces family ties, financial, employment and investment links.
- Annually, to discuss with the External Auditors their policies and processes with regard to relevant ethical and other regulatory requirements concerning the conduct of their work.
- At the end of the annual audit cycle, to assess the effectiveness of the external audit process and confirm that no constraints have been encountered by them regarding the nature and extent of their audit work for any reason.
- To review the nature and extent of cooperation between the external and internal audit teams and the degree of reliance placed upon Internal Audit.

- To review the findings and recommendations of the External Auditor and the Society's response thereto.
- To review the audit representation letter before acceptance by the Board.
- Meet the Audit Director/Partner at least once a year, without Executive Directors or management being present to discuss their remit and any issues arising from the external audits carried out. In addition the Audit Director/Partner shall be given the right to direct access to the Chairman of the Board and the Committee.

#### Financial Reporting

- To review annually, and otherwise as required, the Society's accounting policies prior to approval by the Board.
- To review the annual financial statements of the Society and any formal announcements relating to the Society's financial performance, for compliance with financial reporting requirements, accounting policies and judgemental audit issues before submission to the Board for approval.
- Review the Society's systems and processes for internal financial controls, with reference to both Internal and External Audit review outputs.

#### Internal Audit

- Agree the terms of reference for Internal Audit and the scope of the annual plan.
- Review and assess progress against the plan.
- Review and approve the Internal Audit Charter.
- Monitor and review the effectiveness of the Society's Internal Audit arrangements in the context of the Society's overall risk management framework.
- Recommend the appointment or dismissal of the Internal Auditors whether in-house or outsourced.
- Agree the remuneration/budget for the Internal Auditors/provision of Internal Audit services.
- To conduct an annual review and assessment of the effectiveness of Internal Audit in the overall context of the Society's risk management framework and against performance expectations/objectives. This assessment should also include the work performed, the nature and timing of reports, the adequacy of resources, the adequacy of the knowledge and skill set available, its independence and its compliance with Standards for the Professional Practice of Internal Auditing set by the Chartered Institute of Internal Auditors.
- Consider the findings of each audit report and review progress made by management in the implementation of agreed actions.
- Meet the Head of Internal Audit at least once a year, without Executive Directors or management being present to discuss their remit and any issues arising from the internal audits carried out. In addition, the Head of Internal Audit shall be given the right of direct access to the Chair of the Board and to the Committee.

#### Compliance

- To approve the scope and planning of the Compliance Monitoring Programme for each year.
- To review progress against the Programme during the Compliance monitoring cycle.
- To consider the findings from the Compliance monitoring reviews and branch inspections.
- To review and approve the Compliance Plan and Compliance Strategy annually.
- To review the Employee Development Plan, including the provision of Board/Management training.

#### Reporting Procedures

- The Committee members shall conduct an annual review of their work (including a self-assessment of performance), conduct an annual review of these terms of reference (and associated Standing Orders) and make recommendations to the Board.
- The Committee shall produce a report of its activities to be included in the Society's Annual Report and Accounts.