

Terms of Reference – Audit Committee (AC)

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| 1. | Authority & Purpose | <ul style="list-style-type: none"> • The Board has established a committee to be known as the Audit Committee (AC) to assist it in fulfilling its oversight responsibilities for the following: <ul style="list-style-type: none"> ○ monitoring the integrity of interim and annual financial statements and formal announcements relating to financial performance, including Summary Financial Statements, focusing particularly on significant financial reporting judgments and ensuring the financial statements overall are fair, balanced and understandable and that the interests of the Society’s members are properly protected; ○ reviewing the effectiveness of systems of internal controls and the risk management systems and ensuring that the interests of the Society’s members are properly protected; ○ scrutinising the activities and performance of the Internal Audit function; ○ monitoring the independence and objectivity of the External Auditor and the effectiveness of the audit process; ○ recommending the appointment and approving the remuneration and terms of engagement of the External Auditors; and ○ overseeing the Society’s whistleblowing arrangements. • The AC reports directly to the Board. • The AC is authorised by the Board to: <ul style="list-style-type: none"> ○ carry out the duties as outlined in the Terms of Reference providing robust oversight and challenge to the Society’s risk and control ○ seek any information it requires from any employee of the Society in order to perform its duties, including any investigations required ○ obtain external expertise, advice and support on any risk and control issue if considered necessary. |
| 2. | Chair | <ul style="list-style-type: none"> • The Chair of the AC will be a Non-Executive Director (NED), (who must not be the Society’s Chair) appointed by the Board following consideration and recommendation to the Board by the Nomination and Governance Committee. • If the Chair is absent a NED will be nominated by agreement between the members and will chair the meeting. |
| 3. | Members | <ul style="list-style-type: none"> • Members of the AC shall be appointed by the Board following consideration and recommendation by the Nomination and Governance Committee. • The Committee will comprise at least two further NEDs in addition to the Chair. • The Chair of the Board should not be a member of the AC. |

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| | | <ul style="list-style-type: none"> • At least one member should have recent and relevant financial experience. • Each member is appointed annually at the Board meeting following re-election at the Annual General Meeting. |
| 4. | Standing Attendees | <ul style="list-style-type: none"> • The Executive Directors • The Head of Internal Audit • The Chief Risk Officer • A representative of the Society’s External Auditors should attend all meetings, but will not normally attend that part of any meeting where matters relating to the appointment, remuneration, effectiveness or dismissal of the External Auditors are discussed. |
| 5. | Additional Invitees | <ul style="list-style-type: none"> • Any Non-Executive Director may attend a Meeting without invitation (and where possible will give notice of their intention to do so to facilitate them receiving the AC papers in advance). • The Committee may require any individual(s) to attend a Meeting, such as other members of the Senior Management Team, Risk, Compliance and External Audit. • Specialists may be requested to attend for specific items to provide advice and support or make presentations. |
| 6. | Quorum | <ul style="list-style-type: none"> • For a meeting to be quorate a minimum of 2 AC Members must be present. |
| 7. | Meeting Frequency | <ul style="list-style-type: none"> • The AC will meet as a minimum four times per year with a further meeting in connection with the Society’s Annual Report and Accounts. • The Chair of the AC may convene additional meetings of the Committee as required. |
| 8. | Secretary & Secretarial Functions | <ul style="list-style-type: none"> • The Society’s Secretary (or their nominee) will be the Secretary of the Committee. |
| 9. | The Committee receives its Authority from | <ul style="list-style-type: none"> • The AC is a committee of the Board without executive powers. • It is authorised by the Board to investigate any activity within its terms of reference and seek any information that it requires from any employee of the Society or its subsidiaries. • All employees are directed to cooperate with any request made by the AC. |
| 10. | Scope of this Committee’s | <ul style="list-style-type: none"> • The duties of the AC are categorised as follows: <ul style="list-style-type: none"> a) Financial Reporting |

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| <p>Oversight & Responsibility</p> | <ul style="list-style-type: none"> ○ To <u>review</u> and <u>challenge</u> where necessary, critical accounting policies, any changes to them and any significant estimates and judgements, made by management in connection with the preparation of the Society’s Annual Report and Accounts and Annual Review Booklet before <u>submission</u> to and <u>approval by</u> the Board and before clearance by the External Auditors. ○ To <u>review</u> and <u>challenge</u> where necessary, the clarity and completeness of disclosures to be made in the Annual Report and Accounts and Annual Review Booklet and to <u>report</u> to the Board on these, and the internal control, risk management and the viability statement. ○ To <u>review</u> the content of the annual report and accounts and advise the board on whether, taken as a whole, it is fair, balanced and understandable to <u>inform</u> the board’s statement on these matters required under the UK Corporate Governance Code. <p>b) Internal Control and Risk Management</p> <ul style="list-style-type: none"> ○ To <u>satisfy</u> the Board on the scope and effectiveness of the control, risk management and governance frameworks established by management and the second line of defence and which enables them to <u>identify, assess, manage and monitor</u> financial and non financial risks in relation to its existing and future business and related capital requirements. ○ To <u>satisfy</u> the Board that weaknesses in control are being corrected. ○ To <u>review</u> the adequacy of management information and other reports made available to the Board. ○ To <u>review</u> the statement in the Annual Report and Accounts on the Society’s internal controls and risk management framework. <p>c) External Audit</p> <ul style="list-style-type: none"> ○ To <u>assess</u> the external audit function. ○ To <u>evaluate</u> the risks to the quality and effectiveness of the financial reporting process, especially in light of the auditor’s communications with the audit committee. ○ To <u>recommend</u> to the Board annually the re-appointment, or in the event of a vacancy, the appointment, remuneration and terms of engagement of External Auditors. This is to be done after: <ul style="list-style-type: none"> ▪ formally reviewing their qualifications, skills, experience, resources, independence and effectiveness of the audit process. |
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| | | <ul style="list-style-type: none"> ▪ assessing the audit firm’s own internal quality control procedures and having given due consideration to their annual transparency reports (where available). ▪ considering the risk to the Society of the External Audit firm withdrawing from the market. ▪ determining that the External Audit firm has not been disqualified by the appropriate regulator under Part XXII of the FSMA 2000. (Sup 3.4.5 R). <ul style="list-style-type: none"> ○ To <u>ensure</u> that the external audit services contract should go to tender at least every ten years. If the AC recommends considering the selection of possible new appointees as External Auditors, it should <u>oversee</u> the selection process, and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process. ○ To <u>make recommendations</u> to the Board concerning the dismissal of the External Auditors. ○ To <u>include</u> a statement in the AC section of the Annual Report and Accounts on how the AC reached its recommendation to the board on the appointment, reappointment or removal of the External Auditors. ○ If the External Auditors resign, the AC should <u>investigate</u> the issues giving rise to such resignation and consider whether any action is required. ○ To <u>monitor</u> the External Auditors’ compliance with applicable UK ethical guidance with respect to rotation of partners and level of fees to overall fee income of the firm, office and partner and other related regulatory requirements. ○ To <u>seek reassurance</u> that the External Auditors and their staff have no financial, business, employment or family and other personal relationship with the Society which could adversely affect the External Auditor’s independence and objectivity. ○ To <u>monitor</u> the relationship with the External Auditors and ensure that they have direct access to the AC. ○ To <u>ensure</u> that the External Auditors have appropriate plans in place for the Society’s audit and to review with the External Auditors findings of their work. ○ To <u>reassure</u> the Board that there are no restrictions on the scope and depth of External Audit work. ○ To <u>receive</u> the External Auditors’ Interim and Final Management Letters and review the activities, findings, conclusions and recommendations made, along with management’s response. |
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| | | <ul style="list-style-type: none"> ○ In the course of its assessment of effectiveness, the audit committee should: <ul style="list-style-type: none"> ▪ <u>ask</u> the auditor to explain the risks to audit quality that they identified and how these have been addressed; ▪ <u>discuss</u> with the auditor the key audit firm and network level controls the auditor relied on to address the identified risks to audit quality and enquire about the findings from internal and external inspections of their audit and their audit firm; ▪ <u>review</u> whether the auditor has met the agreed audit plan and understand the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks; ▪ <u>obtain feedback</u> about the conduct of the audit from key people involved, for example the Chief Financial Officer and the Head of Internal Audit, including consideration of the external auditor’s reliance on internal audit; and ▪ <u>review</u> and <u>monitor</u> the content of the external auditor’s management letter, and other communications with the audit committee, in order to assess whether it is based on a good understanding of the company’s business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon. ○ To <u>develop, implement</u> and then <u>review</u> on an annual basis, a policy on the engagement of External Auditors to supply non audit services. ○ To <u>develop, implement</u> and then <u>review</u> on an annual basis, a policy on the employment of former employees of the External Auditor and make recommendations to the board on areas it considers actions and improvements are required. ○ To <u>meet</u> at least annually with the External Auditor without the presence of Society management, to discuss audit issues. <p>d) Internal Audit</p> <ul style="list-style-type: none"> ○ To <u>evaluate</u> the performance of the Internal Audit function on a regular basis, including an assessment of the scope of work performed by Internal Audit, the nature and timing of Internal Audit reports, its independence and the adequacy of Internal Audit resources, including number, experience, skills and training of staff within the Internal Audit function. |
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| | | <ul style="list-style-type: none"> ○ To <u>monitor</u> and <u>assess</u> the role and effectiveness of the internal audit function in the overall context of the company’s risk management system. ○ To <u>ensure</u> Internal Audit have direct access to the Chairman of the AC and Board Chairman and is accountable to the AC. ○ To <u>review</u> the Internal Audit Charter to ensure it is appropriate. ○ To <u>approve</u> the appointment and termination of the employment of the Head of Internal Audit. ○ The Chairman of the AC in conjunction with the Chief Executive to <u>be accountable</u> for setting the objectives of the Head of Internal Audit and appraising his/her performance. ○ The Chairman of the AC in conjunction with the Chief Executive to <u>recommend</u> the remuneration of the Head of Internal Audit to the Remuneration Committee. ○ To <u>approve</u> the Internal Audit budget and to <u>disclose</u> in the Annual Report and Accounts that the Committee is satisfied that Internal Audit has the appropriate resources. ○ To <u>review</u> and <u>approve</u> the preparation and supervision of Internal Audit’s plan and programme. ○ To <u>receive</u> reports from the Head of Internal Audit on the results of the Internal Audit Departments work (including any co-sourced and outsourced work e.g. IT) and report to the Board on the Audit Plan together with recommendations for improvements. ○ To <u>receive</u> the Head of Internal Audit’s annual assessment of the overall effectiveness of the governance, and risk and control framework of the organisation. ○ To <u>review</u> and <u>monitor</u> management’s responsiveness to internal audit findings and recommendations. ○ To <u>review</u> Internal Audit’s reporting format to the AC to determine if it remains appropriate to enable the AC to carry out its duties. ○ To <u>review</u> the reasons for any rejection by management of major points raised by Internal Audit. ○ To <u>consider</u> and <u>approve</u> any arrangement to outsource parts of the Internal Audit function. ○ To <u>consider</u> the adequacy of co-source arrangements. <p>e) Other Duties</p> <ul style="list-style-type: none"> ○ To <u>make available</u> on the Society’s website or on request through the Society’s Secretary, to anyone who requires them, the terms of reference of the AC. |
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| | | <ul style="list-style-type: none"> ○ To <u>approve</u> an annual statement for inclusion in the Annual Report and Accounts, describing the work of the AC, including: <ul style="list-style-type: none"> ▪ A summary of the role of the AC. ▪ The names and qualifications of all members of the AC during the period. ▪ The number of meetings held and attendance by each member. ▪ The way the AC has discharged its responsibilities. ○ To <u>review</u> the Society’s Whistleblowing arrangements and proportionate/independent investigations of such matters and appropriate follow up action. ○ The Chair of the AC will <u>maintain contact</u> on a continuing basis with key people involved in the Society’s governance, including the Board Chair, the Board Risk Committee Chair, Chief Executive, Chief Financial Officer, Secretary, Head of Internal Audit, Chief Risk Officer and Group Compliance Manager. ○ The Chair of the AC <u>will attend</u> the Society’s Annual General Meeting to answer any questions raised during the meeting. ○ The Chair of the AC is <u>responsible for ensuring</u> that members of the AC continually update their skills and knowledge and familiarity with the Society, to enable them to fulfil their role on the AC. |
| 11. | Reporting and Escalation | <ul style="list-style-type: none"> ● The AC will report to the Board by way of a written report following each Committee meeting. The written report will append the committee minutes. ● The report to the Board will be delivered by the Chair of the AC, assisted by the Head of Internal Audit, and will focus on the Society’s key risks and the effectiveness of their key controls. ● The Chair of the AC may provide a verbal update report for any events subsequent to the AC meeting. |
| 12. | Authority Delegated by this Committee | |
| 13. | Administration | <ul style="list-style-type: none"> ● Meetings of the Committee shall be scheduled annually in advance. ● Quarterly meetings will take place at least three working days before the Board meeting that it is to report to. ● An agenda of items to be discussed and supporting papers shall be forwarded to each member of the Committee, no later than three working days before the date of the meeting. ● Draft minutes to go out within 10 days of the meeting. |

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| 14. | Head of Internal Audit Private Meeting with Members | <ul style="list-style-type: none"> The members will meet with the Head of Internal Audit, in the absence of the Executive Directors, at every AC meeting. |
| 15. | Member Training | <ul style="list-style-type: none"> Members shall 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. |
| 16. | Effectiveness Review | <ul style="list-style-type: none"> At least annually, carry out a review of its performance and its Terms of Reference to ensure it is operating effectively and recommend any changes to the Nomination and Governance Committee and the Board for consideration and approval. |
| 17. | Minutes | <ul style="list-style-type: none"> Minutes of Committee meetings will be submitted For Noting to the Board following each meeting where relevant. |
| 18. | ToR Last Approved on | <ul style="list-style-type: none"> 25 July 2023 |