

# The Cumberland

## CUMBERLAND BUILDING SOCIETY AUDIT COMMITTEE

### TERMS OF REFERENCE

#### **1. Authority**

1.1 The Audit Committee (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.

1.2 These terms of reference will be reviewed annually with any changes being approved by the Board

#### **2. Membership**

2.1 The Committee is comprised of a minimum of three independent non-Executive directors (NEDs), one of whom should have recent and relevant financial experience.

2.2 Each member is appointed annually at the Board meeting following the Annual General Meeting.

2.3 The maximum term for AC membership is 9 years.

2.4 The Chairman of the AC, who must not be the Society's Chairman, will be appointed by the Board.

#### **3. Attendance**

3.1 In addition to members of the AC, standing invitations for attendance are extended to:

- The Executive Directors
- The Head of Internal Audit
- The Chief Risk Officer

3.2 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.

3.3 The AC may require any individual(s) to attend a Meeting, such as other members of the Senior Management Team or external consultants

#### **4. Quorum**

4.1 For a meeting to be quorate, a minimum of 2 AC Members must be present

4.2 If the Chairman is absent the other members present will choose one of their number to chair the meeting

#### **5. Frequency of Meetings**

5.1 The AC will meet at least quarterly in March, June, September and December, with a further meeting in May in connection with the Society's Annual Report and Accounts, and at any other times deemed necessary by the AC to fulfil its obligations under these terms of reference.

#### **6. Notice of Meetings**

6.1 Meetings of the AC shall be scheduled annually in advance.

6.2 An agenda of items to be discussed and supporting papers shall be forwarded to each member of the AC and any other person required to attend.

#### **7. Reporting Responsibilities**

7.1 Minutes of AC meetings will be submitted to the Board in the month following each meeting. In addition, the Chairman of the AC will verbally report to the Board after each meeting of the AC.

#### **8. Duties of the Committee**

The duties of the AC are categorised as follows:

##### **8.1 Financial Reporting**

(a) To review and challenge 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 submission to and approval by the Board and before clearance by the External Auditors.

- (b) To review and challenge where necessary, the clarity and completeness of disclosures to be made in the Annual Report and Accounts and Annual Review Booklet and to report to the Board on these, and the internal control, risk management and the viability statement.
- (c) To 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 to inform the board's statement on these matters required under Section C.1.1 of the UK Corporate Governance Code.

## 8.2 Internal Control and Risk Management

- (a) To satisfy 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 with reference to the Combined Assurance Plan, to identify, assess, manage and monitor financial and non financial risks in relation to its existing and future business and related capital requirements.
- (b) To satisfy the Board that weaknesses in control are being corrected.
- (c) To review the adequacy of management information and other reports made available to the Board.
- (d) To review the statement in the Annual Report and Accounts on the Society's internal controls and risk management framework.

## 8.3 External Audit

- (a) To assess the external audit function.
- (b) To evaluate the risks to the quality and effectiveness of the financial reporting process, especially in light of the auditor's communications with the audit committee.
- (c) To recommend 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:
  - formally reviewing their qualifications, skills, experience, resources, independence and effectiveness of the audit process.
  - 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)

- (c) To ensure 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 oversee 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.
- (d) To make recommendations to the Board concerning the dismissal of the External Auditors.
- (e) To include 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.
- (f) If the External Auditors resign, the AC should investigate the issues giving rise to such resignation and consider whether any action is required.
- (g) To monitor 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.
- (h) To seek reassurance that the External Auditors and their staff have no financial, business, employment or family and other personal relationship with the Society which could adversely effect the External Auditor's independence and objectivity.
- (i) To monitor the relationship with the External Auditors and ensure that they have direct access to the AC.
- (j) To ensure 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.
- (k) To reassure the Board that there are no restrictions on the scope and depth of External Audit work.
- (l) To receive the External Auditors' Interim and Final Management Letters and review the activities, findings, conclusions and recommendations made, along with management's response.
- (m) In the course of its assessment of effectiveness, the audit committee should:
  - ask the auditor to explain the risks to audit quality that they identified and how these have been addressed;
  - discuss 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;
  - review 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;

- obtain feedback about the conduct of the audit from key people involved, for example the finance director and the head of internal audit, including consideration of the external auditor's reliance on internal audit; and
  - review and monitor 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.
- (n) To develop, implement and then review on an annual basis, a policy on the engagement of External Auditors to supply non audit services.
- (o) To develop, implement and then review 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.
- (p) To meet at least annually (after the June AC meeting) with the External Auditor without the presence of Society management, to discuss audit issues.

#### 8.4 Internal Audit

- (a) To evaluate 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.
- (b) To monitor and assess the role and effectiveness of the internal audit function in the overall context of the company's risk management system
- (c) To ensure Internal Audit have direct access to the Chairman of the AC and Board Chairman and is accountable to the AC.
- (d) To review the Internal Audit Charter to ensure it is appropriate.
- (e) To approve the appointment and termination of the employment of the Head of Internal Audit.
- (f) The Chairman of the AC in conjunction with the Chief Executive to be accountable for setting the objectives of the Head of Internal Audit and appraising his/her performance.
- (g) The Chairman of the AC in conjunction with the Chief Executive to recommend the remuneration of the Head of Internal Audit to the Remuneration Committee.
- (h) To approve the Internal Audit budget and to disclose in the Annual Report and Accounts that the Committee is satisfied that Internal Audit has the appropriate resources.

- (i) To review and approve the preparation and supervision of Internal Audit's plan and programme.
- (j) To receive 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.
- (k) To receive the Head of Internal Audit's annual assessment of the overall effectiveness of the governance, and risk and control framework of the organisation
- (l) To review and monitor management's responsiveness to internal audit findings and recommendations.
- (m) To review Internal Audit's reporting format to the AC to determine if it remains appropriate to enable the AC to carry out its duties.
- (n) To review the reasons for any rejection by management of major points raised by Internal Audit.
- (o) To consider and approve any arrangement to outsource parts of the Internal Audit function.
- (p) To consider the adequacy of co-source arrangements.
- (q) To meet at least annually (after the March AC meeting) with the Head of Internal Audit without the presence of Society management, to discuss audit issues.

## 8.5 Other Duties

- (a) To make available on the Society's website or on request through the Society's Secretary, to anyone who requires them, terms of reference of the AC.
- (b) To approve an annual statement for inclusion in the Annual Report and Accounts, describing the work of the AC, including:-
  - 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.
- (c) To review the Society's Whistleblowing arrangements and proportionate/independent investigations of such matters and appropriate follow up action.
- (d) The Chairman of the AC will maintain contact on a continuing basis with key people involved in the Society's governance, including the Board Chairman, the Board Risk Committee Chairman, Chief Executive, Finance Director & Secretary, Head of Internal Audit, Chief Risk Officer and Group Compliance Manager.
- (e) The Chairman of the AC will attend the Society's Annual General Meeting to answer any questions raised during the meeting.

- (f) The Chairman of the AC is responsible for ensuring 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.

## **9. Other Matters**

The AC has access to secretarial and legal services and training provided by the Society, and to reasonable funds to enable it to take independent legal, accounting or other appropriate advice or training, or secure the attendance of outsiders with relevant experience and expertise, where considered necessary