



**Board Governance Manual - Appendix G2  
(Section 4 & Section 8)**

**Terms of Reference of Board Sub Committees:  
Audit and Compliance Committee**

**February 2022**

## **Document Control**

The content and any amendments of this document are the responsibility of the Financial Controller and Secretary.

Terms of Reference should be reviewed annually together with the Committee's own effectiveness.

<b>Version</b>	<b>Date</b>	<b>Changes made</b>
1.0	June 2018	Full Review
2.0	October 2018	Manual divided into individual sections
3.0	November 2019	Full Review
4.0	February 2020	Updates
5.0	June 2020	Full Review
6.0	November 2020	Updates
7.0	December 2020	Updates
8.0	August 2021	Full Review
9.0	February 2022	Updates

## **Contents**

Audit and Compliance Committee .....	4
Constitution .....	4
Objective .....	4
Membership and Attendance .....	4
Frequency of Meetings .....	4
Authority .....	4
Duties .....	5
Timetable for Consideration of Business Issues* .....	7

## **Audit and Compliance Committee**

### **Constitution**

The Board has resolved to establish a Committee of the Board to be known as the Audit and Compliance Committee.

### **Objective**

To ensure the integrity of the control environment and the Society's adherence to the regulatory requirements identified at 3 and 4 below.

### **Membership and Attendance**

The Committee shall be appointed by the Board from amongst the Non-Executive Directors and shall comprise not less than three Non-Executive Directors (including the Chair) although any of the Non-Executive Directors is entitled to attend. Members of the Committee shall include at least one member of the ALCO, one member of the Risk Committee and one member who must have recent and relevant financial experience. The Committee as a whole shall have competence in Financial Services. The Executive Directors, Head of Risk, Financial Controller & Society Secretary. External and Internal Auditors will normally attend meetings. A quorum shall be two Non-executive Directors and one member who must have recent and relevant financial experience.

The Chair of the Committee (SMF 11) shall be appointed by the Board. The Chair of the Board shall not be a member of the Committee.

### **Frequency of Meetings**

Meetings shall be held not less than four times per year. Committee members may hold such number of meetings as they deem appropriate to fulfil their duties. At least one meeting per year should be held with the External Auditors and the Internal Auditors without any member of the Executive being present. At least once per year, the Audit & Compliance Committee will be held prior to the Risk Committee to allow for interaction between the two Committees.

### **Authority**

The Committee is authorised by the Board to handle any activity within its terms of reference. It is authorised to seek any information it requires from any employee, and all employees are directed to co-operate with any request made by the Committee.

The Committee is authorised by the Board to obtain external legal or other independent professional advice and to secure the attendance of third parties with relevant experience and expertise if it considers this necessary.

The minutes of meetings of the Committee will be circulated to all members of the Board, and the Chair will report formally to the Board on its deliberations, decisions and recommendations at the Board meeting following each Committee meeting.

## **Duties**

The duties of the Committee shall be:

### **1. External Audit**

- a) to consider and make recommendations on the appointment of the external auditors, taking into account their independence and objectivity; to recommend the Engagement Letter to the Board;
- b) to recommend the audit fee to the Board;
- c) to discuss and agree with the external auditors before the audit commences the nature and scope of the audit, including planned levels of materiality and the adequacy of proposed resources;
- d) to discuss issues and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary);
- e) to review the external auditors' final audit findings and where appropriate to propose any consequent recommendations to the Board;
- f) to consider, before the Board appoints the external auditors to carry out any non-audit services, whether there are any matters to be taken into account which might make such an appointment inappropriate;
- g) to authorise any additional services to be provided by external audit other than those included the annual audit;
- h) to investigate any issues giving rise to the resignation of the external auditors should such an event occur, and for considering whether any action is required.

### **2. Internal Audit**

- a) to consider the appointment of the Internal Auditors, taking into account the adequacy of resources and skills of the internal audit staff and the overall effectiveness of the internal audit function; to approve the Letter of Engagement;
- b) to review and approve the annual internal audit plan, agree the internal audit fee and ensure co-ordination between the internal and external auditors;
- c) to consider the findings of internal audit investigations, recommendations arising and management's responses;
- d) to have primary responsibility for considering findings in relation to treasury controls (with ALCO also receiving the treasury reports from the internal auditor);

- e) to receive the annual internal audit opinion.

**3. Financial Oversight**

- a) to review and approve the appropriateness of accounting policies, practices and assumptions;
- b) to review the annual financial statements before recommendation to the Board, focusing particularly on:
  - (i) major judgemental areas;
  - (ii) significant adjustments resulting from the audit;
  - (iii) compliance with accounting standards;
  - (iv) compliance with regulatory requirements.

**4. Compliance**

- a) to consider and approve the Annual Compliance Plan and monitor its ongoing implementation;
- b) to review the Society's policies for compliance with statutory and regulatory requirements (as appropriate), and in particular compliance with:
  - (i) the deposit-taking, mortgage lending and general insurance regulations of the Prudential Regulation Authority and the Financial Conduct Authority;
  - (ii) Financial Crime regulations regarding bribery and conflicts of interest;
  - (iii) the General Data Protection Regulations;
  - (iv) Health and Safety legislation;and to recommend any changes in these documents to the Board;
- c) to receive reports prepared by the Executive or third parties concerning the Society's compliance with regulatory requirements, to consider their findings and, where necessary, recommend changes in policy or procedures to the Board;
- d) to receive a report annually from the Money Laundering Reporting Officer, and determine any necessary improvements in control;
- e) to review and approve the Society's Whistleblowing Statement;
- f) to ensure that outsourcing arrangements in critical areas are compliant and robust prior to signature.

**5. Miscellaneous**

- a) to consider other topics, as defined by the Board.
- b) to periodically, and at least annually, carry out a Committee Self-Evaluation exercise
- c) consider any training and development needs for Committee members.

## **Timetable for Consideration of Business Issues\***

### **January:**

Information Provided:

1. Progress of End of Year Accounts

Items for Decision:

1. Effectiveness and Independence of Internal Audit Process
2. Internal Audit Report
3. Internal Audit Opinion
4. Conflicts of Interest and Anti-Bribery Policy and Register
5. Review of IFRS Assumptions
6. Approval of IAS19 Assumptions
7. Health & Safety Policy and Report

### **March:**

Information Provided:

1. Emerging Compliance Issues
2. Annual Compliance Report (including Q4)
3. GDPR Update
4. Money Laundering Report

Items for Decision:

1. Annual Financial Statements
2. Recommendation for Appointment of External Auditors
3. Approve External Audit Letter of Representation
4. Self-Evaluation Questionnaire Template
5. Meeting without Executives with Internal and External Auditors

### **June:**

Information Provided:

1. Internal Audit Report
2. Emerging Compliance Issues
3. Quarterly Compliance Report

Items for Decision:

1. Effectiveness and Independence of External Audit Process
2. Regulatory Reporting and Management Information Policy

3. Data Protection Policy
4. Speak Up Policy and Statement
5. Results of Self-Evaluation Questionnaire
6. Audit and Compliance Committee Terms of Reference
7. Review of Information Supplied to Committee
8. Meeting without Executives

**September:**

*Communication to agree the external audit plan, fee and letter of engagement – either by email or a formal meeting if required.*

**November:**

Information Provided:

1. Internal Audit Report
2. Emerging Compliance Issues
3. Quarterly Compliance Report
4. Reconciliation of Q4 Capital Adequacy Returns, December Capital MI and latest ICAAP
5. GDPR Update

Items for Decision:

1. Internal Audit Plan and Fee including Audit Charter
2. Appointment of Internal Auditors
3. Approve External Audit Letter of Engagement
4. Approve Internal Audit Letter of Engagement (including Letter of Representation)
5. Compliance Policy & Framework
6. Annual Assurance Plan
7. Review of IFRS Assumptions
8. External Audit Plan and Fee
9. Accounting Policies

**Policies for Consideration by Audit & Compliance Committee:**

1. General Data Protection Regulations Policy
2. Speak Up Policy and Statement
3. The Compliance Policy
4. Accounting Policies
5. Conflicts of Interest and Anti-Bribery Policy
6. Health & Safety Policy
7. Regulatory Reporting and Management Information Policy

\* The timetable is produced for guidance to ensure all matters are considered in a timely manner but meetings and items may move within the year, dependent on the full Board meeting timetable.