



## Audit & Risk Committee – Terms of Reference

*March 2012*

## **Table of contents**

1. Constitution
2. Membership
3. Attendance at Meetings
4. Frequency of Meetings
5. Authority
6. Responsibilities
7. Reporting

## 1. Constitution

The Audit and Risk Committee is a committee of the Board without executive powers.

## 2. Membership

The Committee is comprised of a minimum of three independent non-Executive directors, one of whom should have recent and relevant financial experience. Two non-Executive Directors must be present to form a quorum.

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

The Chairman of the Audit and Risk Committee, who must not be the Society's Chairman, will be appointed by the Board.

## 3. Attendance at Meetings

The Society's Executive Directors, Head of Internal Audit, Group Risk Manager and the Group Compliance Manager may also be invited to attend meetings. At the request of the Committee and where deemed appropriate, other members of staff and external consultants may also attend.

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

The Assistant Secretary of the Society shall act as Secretary to the Committee.

## 4. Frequency of Meetings

The Audit and Risk Committee 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 Committee to fulfil its obligations under these terms of reference.

The External Auditor, Head of Internal Audit or Group Risk Manager may request a meeting if they consider that one is necessary.

## 5. Authority

The Audit and Risk Committee 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 Committee.

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

## 6. Responsibilities

### 1. Internal Control and Risk Management

- 1.1 To satisfy the Board on the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non financial risks in relation to its existing and future business and related capital requirements.
- 1.2 To review compliance with requirements and standards under the regulatory system.
- 1.3 To receive and review reports on the management of risk by the Society's Risk Management Committee, Information Security Committee, Security Committee, Money Laundering Committee, Business Continuity Committee, Health and Safety Committee and Fraud Prevention Committee.
- 1.4 To satisfy the Board that weaknesses in control are being corrected.
- 1.5 To review the adequacy of management information and other reports made available to the Board.
- 1.6 To review the statement in the annual report and accounts on the Society's internal controls and risk management framework.

### 2 External Audit

- 2.1 To assess the external audit function.
- 2.2 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:
  - 2.2.1 formally reviewing their qualifications, skills, experience, resources, independence and

effectiveness of the audit process.

- 2.2.2 assessing the audit firm's own internal quality control procedures and having given due consideration to their annual transparency reports (where available).
- 2.2.3 considering the risk to the Society of the External Audit firm withdrawing from the market.
- 2.2.4 determining that they have not been disqualified by the FSA under Sec 345 of the FSMA 2000 by the FSA. (Sup 3.4.5 R).
- 2.3 To make recommendations to the Board concerning the dismissal of the External Auditors.
- 2.4 To include a statement in the Audit and Risk Committee section of the annual report on how the Audit and Risk Committee reached its recommendation to the board on the appointment, reappointment or removal of the external auditors.
- 2.5 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.
- 2.6 To seek reassurance that the auditors and their staff have no financial, business, employment or family and other personal relationship with the company which could adversely effect the auditors' independence and objectivity.
- 2.7 To monitor the relationship with the External Auditors and ensure that they have direct access to the Audit and Risk Committee.
- 2.8 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.
- 2.9 To reassure the Board that there are no restrictions on the scope and depth of external audit work.

- 2.10 To receive the External Auditors' Interim and final Management Letters and review the activities, findings, conclusions and recommendations made, along with management's response.
- 2.11 To develop, implement and then review on an annual basis, a policy on the engagement of external auditors to supply non audit services.
- 2.12 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.
- 2.13 To meet at least annually (after the June Audit and Risk Committee meeting) with the External Auditor without the presence of Society management, to discuss audit issues.

### **3 Internal Audit**

- 3.1 To assess the effectiveness of the Society's Internal Audit function, in the overall context of the Society's risk management system, 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.
- 3.2 Ensure Internal Audit have direct access to the Chairman of the Committee and Board Chairman and is accountable to the Audit and Risk Committee.
- 3.3 To review the Internal Audit Charter to ensure it is appropriate.
- 3.4 To approve the appointment and termination of the employment of the Head of Internal Audit.
- 3.5 To review and approve the preparation and supervision of Internal Audit's plan and programme.
- 3.6 To receive reports from the Head of Internal Audit on the results of the Internal Audit Departments work (Including any outsourced work i.e. IT) and report to the Board on the Audit Plan together with

recommendations for improvements.

- 3.7 To review and monitor management's responsiveness to internal audit findings and recommendations.
- 3.8 To review Internal Audit's reporting format to the Audit and Risk Committee to determine if it remains appropriate to enable the Committee to carry out its duties.
- 3.9 To review the reasons for any rejection by management of major points raised by Internal Audit.
- 3.10 To consider and approve any arrangement to outsource parts of the Internal Audit function.
- 3.11 To meet at least annually (after the March Audit and Risk Committee meeting) with the Head of Internal Audit without the presence of Society management, to discuss audit issues.

#### **4 Risk**

- 4.1 To assess the effectiveness of the Society's Risk Management function, in the overall context of the Society's risk exposures and risk appetite, including an assessment of the Group Risk Infrastructure, the nature, content and timing of risk review reports, the independence of the Group Risk Manager and the adequacy of resources within the Risk Management function, including number, experience, skills and training of staff.
- 4.2 To review the Society's arrangements for identifying, assessing and managing the critical risks it faces.
- 4.3 To review, on a quarterly basis, the Society's appetite for the critical risks facing the Group.
- 4.4 To review, at least annually, the Group Operational Risk Policy.
- 4.5 Ensure the Group Risk Manager has direct access to the Chairman of the Committee and Board Chairman and is accountable to the Audit and Risk Committee.
- 4.6 To approve the appointment and termination of the employment of the Group Risk Manager.

- 4.7 To review and approve the Group Risk Manager's plan and programme.
- 4.8 To receive reports from the Group Risk Manager on the results of risk review work undertaken.
- 4.9 To review reports on any material breaches of the Group Operational Risk Policy or any material breaches of controls and procedures associated with critical and key operational risks.
- 4.10 To review the reporting format of the Group Risk Manager to the Audit and Risk Committee to determine if it remains appropriate to enable the Committee to carry out its duties.
- 4.11 To meet at least annually (after the December Audit and Risk Committee meeting) with the Group Risk Manager without the presence of Society management, to discuss risk issues.
- 4.12 To provide advice, oversight and challenge necessary to embed and maintain a supportive risk culture throughout the Society.

## **5 Compliance**

- 5.1 To assess the effectiveness of the Society's Compliance functions and the overall adequacy of the Society's compliance arrangements. This includes an assessment of the scope of work performed by the Group Compliance Manager and those responsible for compliance within the business, the nature and timing of compliance reports, independence of the oversight function and the adequacy of compliance resources, including number, experience, skills and training of staff.
- 5.2** To review, at least annually, the Group Compliance Policy
- 5.3** To review, at least annually, the Compliance Monitoring Charter and ensure it is appropriate
- 5.4 To review and approve the annual Compliance Plan.
- 5.5 To review reports from the Group Compliance Manager on the adequacy of the Group's compliance

responsibilities.

- 5.6 To review reports on compliance from the Group's Compliance officers or persons with specific compliance responsibilities.
- 5.7 To review reports on any material compliance breaches or issues.
- 5.8 To review the format of reports on compliance to the Committee and determine if they remain appropriate to enable the Committee to carry out its duties.
- 5.9 To review arrangements established by management for compliance with regulatory, financial reporting and other requirements.
- 5.10 To provide advice, oversight and necessary challenge to embed and maintain a supportive compliance culture throughout the Society.
- 5.11 To meet at least annually (after the September Audit and Risk Committee meeting) with the Group Compliance Manager without the presence of Society management, to discuss compliance issues.
- 5.12 To ensure the Group Compliance Manager has direct access to the Chairman of the Committee and Board Chairman, and is accountable to the Audit and Risk Committee.
- 5.13 To approve the appointment and termination of the employment of the Group Compliance Manager.

## **6 Financial Reporting**

- 6.1 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 Accounts, Directors Report, Annual Business Statement and Summary Financial Statement, before submission to and approval by the Board and before clearance by the auditors.
- 6.2 To review and challenge where necessary, the clarity and completeness of disclosures to be made in

the Annual Accounts, Directors Report, Annual Business Statement and Summary Financial Statement prior and to report to the Board on these.

## **7 General**

- 7.1 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 Audit and Risk Committee.
- 7.2 To approve an annual statement for inclusion in the annual report, describing the work of the Audit and Risk Committee, including:-
  - 7.2.1 A summary of the role of the Committee
  - 7.2.2 The names and qualifications of all members of the Committee during the period
  - 7.2.3 The number of meetings held and attendance by each member
  - 7.2.4 The way the Committee has discharged its responsibilities
- 7.3 To review the Society's Whistle Blowing arrangements and proportionate/independent investigations of such matters and appropriate follow up action.
- 7.4 To review the Society's arrangements for detecting fraud and money laundering.
- 7.5 The Chairman of the Audit and Risk Committee will keep in touch on a continuing basis with key people involved in the Society's governance, including the Board Chairman, Chief Executive, Finance Director & Secretary and Head of Internal Audit.
- 7.6 The Chairman of the Audit and Risk Committee will attend the Society's Annual General Meeting to answer any questions raised during the meeting.
- 7.7 The Chairman of the Audit and Risk Committee is responsible for ensuring that members of the

Committee continually update their skills and knowledge and familiarity with the Society, to enable them to fulfil their role on the Audit and Risk Committee.

- 7.8 The Audit and Risk Committee 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.

## **7. Reporting**

Audit and Risk Committee minutes will be considered at each Board Meeting following the Audit and Risk Committee Meeting.