

## Terms of Reference – Audit Committee

### 1. Purpose

- 1.1. The purpose of the Committee is to ensure, and to provide assurance to the Board that the Society's systems of control are appropriate in respect of the type of business it transacts, the market in which it operates and the regulatory regime by which it is assessed. In particular, the Committee will review, approve and monitor the effectiveness of the internal audit strategies and reports and the external auditors' activities. For the purposes of these Terms of Reference any reference to 'the Society' should be deemed to include its subsidiary companies.

### 2. Membership

- 2.1. The Committee shall comprise at least three members. Membership shall include the Chair of the Governance and Risk Committee. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chair of the Audit Committee. The Board shall appoint the Committee Chair and will take into account the Audit Committee and Nomination Committee's recommendation.
- 2.2. All members of the Committee shall be independent non-executive directors at least one of whom shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy or actuarial bodies. All members of the Committee are required to keep up to date on financial and regulatory matters. The Chair of the Board shall not be a member of the Committee.
- 2.3. Only members of the Committee have the right to attend Committee meetings. However, the external auditor, the Head of Internal Audit, the Finance Director, the Chief Actuary and the Chief Risk Officer will be invited to attend meetings of the Committee on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 2.4. Appointments to the Committee shall be for a period of up to three years, extendable by no more than two additional three-year periods, so long as members continue to meet the criteria for membership of the Committee and re-election by the members.

### 3. Secretary

- 3.1. The Company Secretary, or their nominee, shall act as the Secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

### 4. Quorum

- 4.1. The quorum necessary for the transaction of business shall be two members of the Committee.
- 4.2. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
- 4.3. 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.

### 5. Frequency of Meetings

- 5.1. The Committee shall meet at least four times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required. Meetings may be held in person, over the telephone or by technology enabled conference. A member of the Committee so participated shall be deemed to be present in person at the meeting and shall be entitled to fully participate and be counted in the quorum accordingly.
- 5.2. Interim 'specific issue(s)' meetings may be convened, by the Secretary, at the request of the Chair. In circumstances where a decision is required to be made in a timely fashion, the interim meeting may take place

by e-mail and shall be valid if the e-mail has been circulated to all members of the Committee and the decision is approved by a quorum.

- 5.3. Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Society's governance, including the Board Chair, the Governance and Risk Committee Chair, the Chief Executive, the Finance Director, the external audit lead partner and the Head of Internal Audit. 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.

## **6. Notice of Meetings**

- 6.1. Meetings of the Committee shall be convened by the Secretary at the request of the Committee Chair or any of its members or at the request of the external audit lead partner or Head of Internal Audit, if they consider it necessary.
- 6.2. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time.

## **7. Minutes of Meetings**

- 7.1. The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- 7.2. Draft minutes of Committee meetings shall be circulated within ten working days of the meeting to all members of the Committee. Once approved, minutes shall be circulated to all other members of the Board unless it would be inappropriate to do so in the opinion of the Committee Chair.
- 7.3. Final signed copies of the minutes of the meetings of the Committee should be maintained for the Society's records.
- 7.4. Where meetings have taken place by exchange of e-mail, copies of the e-mails shall be included in the minute book as the minutes of the e-mail meeting.

## **8. Annual General Meeting**

- 8.1. The Committee Chair shall attend the Annual General Meeting to answer member questions on the Committee's activities.

## **9. Responsibilities**

The Committee should carry out the duties below for the Society, its subsidiaries and the group as a whole, as appropriate.

### **9.1. Financial Reporting**

- 9.1.1. The Committee shall monitor the integrity of the financial statements of the Society, including its Annual Report, annual returns and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor. The Committee shall also review summary financial statements and significant financial returns to regulators.

- 9.1.2. In particular, the Committee shall review and challenge where necessary:

- 9.1.2.1. the consistency of, and any changes to, significant accounting policies and practices both on a year on year basis and across the Society;

- 9.1.2.2. the methods used to account for significant or unusual transactions where different approaches are possible;
  - 9.1.2.3. whether the Society has followed or has adopted the appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - 9.1.2.4. the clarity and completeness of disclosure in the Society's financial reports and the context in which statements are made; and
  - 9.1.2.5. all material information presented with the financial statements, such as the business review, the going concern statement, the viability statement assumptions, the strategic report, and the corporate governance statements relating to the audit and to risk management.
- 9.1.3. Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Society, it shall report its views to the Board.
- 9.1.4. The Committee shall review the integrity of the Society's internal financial reporting.
- 9.1.5. The Committee shall monitor the financial reporting process and submit recommendations or proposals to ensure its integrity.
- 9.1.6. The Committee shall monitor the annual financial statements of the defined benefit pension scheme where not monitored by the Board as a whole.
- 9.1.7. The Committee shall make recommendations to the Board enabling the Board to finalise and sign statutory reports and other returns required of it.
- 9.2. Solvency II Report
- 9.2.1. The Committee shall review, approve and recommend to the Board the various reports underpinning Solvency II reporting, for example, the Solvency and Financial Condition Report (SFCR) and the Regular Supervisory Report (RSR).
- 9.3. Narrative Reporting
- 9.3.1. The Committee shall 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 and provides the information necessary for members or stakeholders to assess the Society's performance, business model and strategy.
- 9.4. Internal Financial & Quality Controls
- The Committee shall:
- 9.4.1. keep under review the adequacy and effectiveness of the Company's internal financial controls regarding financial reporting;
  - 9.4.2. receive reports and review policy on the effectiveness of the control systems established and conclusions from and testing carried out; and
  - 9.4.3. review and approve the statements to be included in the Annual Report concerning internal financial controls.
- 9.5. Internal Audit
- The Committee shall:
- 9.5.1. approve the appointment or termination of appointment of the Head of Internal Audit;
  - 9.5.2. review and approve the remit of the internal audit function, ensure the function has the necessary resources and access to information to enable it to fulfil its mandate, ensuring there is open

communication between different functions. Furthermore, that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;

- 9.5.3. ensure the Head of Internal Audit has direct access to the Board Chair and to the Committee Chair, providing independence from the Chief Executive and is accountable to the Committee;
- 9.5.4. review and assess the annual internal audit work plan to ensure it is aligned to the key risks of the business, and to monitor progress against the plan;
- 9.5.5. receive a report on the results of the internal audit function's work on a periodic basis;
- 9.5.6. review and monitor management's responsiveness to the findings and recommendations of the internal audit function and ensure that the agreed actions are put into effect;
- 9.5.7. meet with the Head of Internal Audit at least once a year, without the presence of management; and
- 9.5.8. monitor and review the effectiveness of the Society's internal quality control and risk management systems internal audit function;
- 9.5.9. where the tenure of the Head of Internal Audit exceeds seven years, the Audit Committee should explicitly discuss annually the Chair's assessment of the Head of Internal Audit's independence and objectivity.

#### 9.6. External Audit

The Committee shall review and monitor the independence of the statutory auditor/audit firm by doing the following:

- 9.6.1. consider and make recommendations to the Board, to be put to members for approval at the AGM, in relation to the appointment, re-appointment and removal of the Society's external auditor;
- 9.6.2. where the Board does not accept the Committee's recommendation on appointment, re-appointment or removal of the external auditors, prepare a statement explaining the Committee's recommendation which shall be included in the Annual Report and in any papers recommending appointment or re-appointment together with the Board's reasons for taking a different position;
- 9.6.3. ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender 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;
- 9.6.4. if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 9.6.5. oversee the relationship with the external auditor including (but not limited to):
  - 9.6.5.1. negotiation and agreement of their remuneration, including fees for both audit and non-audit services, ensuring that the level of fees is appropriate to enable an effective and high-quality audit to be conducted;
  - 9.6.5.2. negotiation and agreement of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 9.6.5.3. assessing annually their independence and objectivity taking into account relevant UK law, the Ethical Standard and other professional and regulatory requirements and the relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services;
  - 9.6.5.4. satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Society (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;

- 9.6.5.5. agreeing with the Board a policy on the employment of former employees of the Society's auditor, and monitoring the implementation of this policy;
- 9.6.5.6. monitoring the auditor's compliance with relevant law, regulation, other professional guidance and the Ethical Standard, including the rotation of the audit partner;
- 9.6.5.7. consider the level of fees paid by the Society compared to the overall fee income of the firm, office and partner and assess these in the context of relevant professional and regulatory requirements, guidance and other related requirements;
- 9.6.5.8. assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
- 9.6.5.9. seeking to ensure co-ordination with the activities of the internal audit function; and
- 9.6.5.10. evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their auditor from the market in that evaluation;
- 9.6.6. meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit;
- 9.6.7. discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- 9.6.8. review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
  - 9.6.8.1. a discussion of any major issues which arose during the audit;
  - 9.6.8.2. the auditor's explanation of how the risks to audit quality were addressed;
  - 9.6.8.3. key accounting and audit judgements;
  - 9.6.8.4. levels of errors identified during the audit; and
- 9.6.9. review any representation letter(s) requested by the external auditor before they are signed by management;
- 9.6.10. review the management letter and management's response to the auditor's findings and recommendations;
- 9.6.11. review the effectiveness of the audit process, including the auditor's view of their interactions with senior management, an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee; and
- 9.6.12. develop and implement policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.
- 9.7. Non-Audit services undertaken by the appointed external auditors
  - 9.7.1. In accordance with the Policy on the Payment of Non-Audit Fees to the Auditors ('the Policy'), the Audit Committee must consider and approve the provision of the following non-audit services by the current external auditor
  - 9.7.2. The policy should include consideration of the following matters:
    - 9.7.2.1. the nature of the non-audit services;

- 9.7.2.2. whether the external audit firm is the most suitable supplier of the non-audit service;
- 9.7.2.3. the fees for the non-audit services, both individually and in aggregate, relative to the audit fee;
- 9.7.2.4. the criteria governing compensation;
- 9.7.2.5. acquisition due diligence;
- 9.7.2.6. staff secondment other than incidental ad hoc assignments which will not compromise audit independence, which are permitted; and
- 9.7.2.7. any other engagement not specifically prohibited or allowed.

## 9.8. Whistle-blowing and Fraud

### 9.8.1. The Committee shall:

- 9.8.1.1. review the adequacy and security of the Society's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- 9.8.1.2. review the Society's procedures for detecting fraud;
- 9.8.1.3. review the Society's systems and controls for the prevention of bribery, corruption and criminal tax evasion and receive reports on any non-compliance;
- 9.8.1.4. receive and review the procedure for assessment of the system of governance, in relation to Whistleblowing, Antibribery and Fraud, including evidencing adequacy; and
- 9.8.1.5. satisfy itself from receiving regular reports from the Money Laundering Reporting Officer on the adequacy and effectiveness of the Society's anti-money laundering systems and controls.

## 10. Reporting Responsibilities

- 10.1. The Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:
  - 10.1.1. the significant issues that it considered in relation to the financial statements (required under paragraph 8.1.1) and how these were addressed;
  - 10.1.2. its assessment of the effectiveness of the external audit process (required under paragraph 8.4.4.7) and its recommendation on the appointment or reappointment of the external auditor;
  - 10.1.3. the outcome of the statutory audit and an explanation of how the statutory audit contributed to the integrity of financial reporting and what the role of the Audit Committee was in that process; and
  - 10.1.4. any other issues on which the Board has requested the Committee's opinion.
- 10.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.3. The Committee shall compile a report on its activities to be included in the Society's Annual Report. The report should describe the work of the Audit Committee, including:
  - 10.3.1. an explanation of how the Committee has addressed the effectiveness of the external audit process, the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans;
  - 10.3.2. the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor;
  - 10.3.3. and all other information requirements set out in the AFM Corporate Governance Code.

- 10.4. In compiling the reports referred to in 9.1 and 9.3, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Society is a going concern and the inputs to the Board's viability statement. The report to members need not repeat information disclosed elsewhere in the Annual Report and Accounts, but should provide cross-references to that information.

## **11. Other Matters**

The Committee shall:

- 11.1. have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 11.2. be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;
- 11.3. give due consideration to laws and regulations, the provisions of the AFM Corporate Governance Code, Prudential Regulation Authority and the Financial Reporting Council and any other applicable rules or legislation, as appropriate;
- 11.4. be responsible for co-ordination of the internal and external auditors;
- 11.5. oversee any investigation of activities which are within its terms of reference;
- 11.6. work and liaise as necessary with all other Board Committees; and
- 11.7. arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

## **12. Authority**

The Committee is authorised to:

- 12.1. seek any information it requires from any employee or director of the Society in order to perform its duties;
- 12.2. obtain, at the Society's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
- 12.3. call any employee to be questioned at a meeting of the Committee as and when required;
- 12.4. to delegate any of its duties as is appropriate to such persons or person as it thinks fit whilst retaining responsibility and oversight for any and all actions taken; and
- 12.5. have the right to publish in the Society's Annual Report, details of any issues that cannot be resolved between the Committee and the Board. If the Board has not accepted the Committee's recommendation on the external auditor appointment, reappointment or removal, the annual report should include a statement explaining the Committee's recommendation and the reasons why the Board has taken a different position.