

# 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. Membership will comprise at least three independent non-executive directors of the Society, to be nominated by the Board from time to time. The Committee as a whole shall have competence relevant to the sector in which the Society operates and at least one member shall have recent and relevant financial experience. The Chair of the Society shall not be a member of the Committee.

## 3. Attendees

- 3.1. Meetings of the Committee may be attended by the Chair of the Board, the Chief Financial Officer, the Head of Internal Audit, the Chief Actuary, the Chief Risk Officer, the Head of Finance, representatives of the external auditors and other directors, employees and third parties at the invitation of the Committee

## 4. Secretary

- 4.1. 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.

## 5. Quorum

- 5.1. The quorum necessary for the transaction of business shall be two members of the Committee. 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.
- 5.2. 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.

## 6. Meetings

- 6.1. The Committee will normally meet at least four times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required. Ad-hoc meetings may also be held. 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.
- 6.2. The Chair or any member of the committee or the Company Secretary may convene a meeting of the Committee at any time on reasonable notice to consider any matter falling within these Terms of Reference. The Committee is permitted to provide approval or direction

outside of scheduled meetings in circumstances where agile decision making is necessary. Such decisions shall be effective if accompanied by suitable briefings and supported by a majority, to include the Chair of the Committee.

- 6.3. The Committee will meet privately, as often as the Committee deems necessary but at least once a year, with each of (i) the external auditor; the Head of Internal Audit, the Chief Risk Officer to discuss matters relating to their remit and any issues arising from their work. The Chair, and to a lesser extent the other members, will regularly engage with the key management involved in the Society's governance, including the Board Chair the Chief Executive and the Chief Financial Officer. 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.

## **7. Notice of Meetings**

- 3.1. 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.
- 3.2. 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.

## **8. Minutes of Meetings**

- 8.1. The minutes of each meeting will be distributed to all directors and attendees as appropriate, taking into account any conflicts of interest which may exist. Reports will be made to the Board following each meeting of the Committee by the Chair of that meeting.
- 8.2. Final signed copies of the minutes of the meetings of the Committee should be maintained for the Society's records.
- 8.3. 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.

## **9. Member Engagement**

- 9.1. The membership of the Committee and description of its duties and activities during the year will be disclosed in the Annual Report of the Society. The Chair of the Committee, or a deputy chosen from its membership, will be available at the Annual General Meeting of the Society to answer questions which relate to the work of the Committee and, where necessary engage with members on the scope of the external audit, assurance activities or any significant matter relating to the Committee's area of responsibility.

## **10. Responsibilities**

In carrying out their responsibilities, the Committee members must act in accordance with the statement of Directors' Duties set out in Section 171-177 of the Companies Act 2006, the AFM Corporate Governance Code and the UK Corporate Governance Code. The Committees responsibilities are:

### **10.1. Financial Reporting**

- 10.1.1. to review, and challenge where necessary, the judgements on key assumptions and estimates of management, in relation to the annual financial statements before submission to the Board, payment particular attention to:

- 10.1.1.1. the consistency of, and any changes to, significant or critical accounting policies and practices;
  - 10.1.1.2. decisions requiring a major element of judgement, the methods used to account for significant or unusual transactions where different approaches are possible and to the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
  - 10.1.1.3. whether the Society has following or has adopted the appropriate accounting standards and made appropriate estimates and judgements, taking into account the view of the external auditor;
  - 10.1.1.4. future expectations of assets and liabilities and the quality of management's judgements;
  - 10.1.1.5. compliance with accounting standards;
  - 10.1.1.6. the clarity and completeness of disclosure in the Society's financial reports and the context in which statements are made; and
  - 10.1.1.7. all material information presented with the financial statements, such as the going concern statement, the viability statement assumptions, the strategic report, and the corporate governance statements relating to the audit and to risk management.
- 10.1.2. 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.
  - 10.1.3. the Committee shall review the integrity of the Society's internal financial reporting.
  - 10.1.4. the Committee shall monitor the financial reporting process and submit recommendations or proposals to ensure its integrity.
  - 10.1.5. the Committee shall monitor the annual financial statements of the defined benefit pension scheme where not monitored by the Board as a whole.
  - 10.1.6. to provide advice to the Board, where requested, on whether the annual report and financial statements, taken as a whole, are fair balanced and understandable and whether the annual report and financial statements provide the information necessary for members to assess the Society's position and performance and business strategy.
  - 10.1.7. to invite challenge by the external auditor, giving due consideration to points raised, discuss problems and reservations arising from the final audits and any matters the external auditor may wish to discuss (in the absence of management where necessary) and making changes to the financial statements in response to such discussions where appropriate.

## 10.2. Solvency Report

- 10.2.1. The Committee shall review, approve and recommend to the Board the various reports underpinning Solvency reporting, for example, the Solvency and Financial Condition Report (SFCR).

### 10.3. Internal Financial & Quality Controls

The Committee shall:

- 10.3.1. keep under review the adequacy and effectiveness of the Company's internal financial controls regarding financial reporting;
- 10.3.2. receive reports and review policy on the effectiveness of the control systems established and conclusions from and testing carried out; and
- 10.3.3. review and approve the statements to be included in the Annual Report concerning internal financial controls.

### 10.4. Internal Audit

The Committee shall:

- 10.4.1. approve the appointment or termination of appointment of the Head of Internal Audit;
- 10.4.2. shall be responsible for approving the internal audit budget and, as part of the Committee's overall governance responsibility, disclose in the Annual Report and Accounts whether it is satisfied that the internal audit function has the appropriate resource;
- 10.4.3. 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;
- 10.4.4. 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;
- 10.4.5. 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;
- 10.4.6. receive a report on the results of the internal audit function's work on a periodic basis;
- 10.4.7. 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;
- 10.4.8. meet with the Head of Internal Audit at least once a year, without the presence of management; and
- 10.4.9. monitor and review the effectiveness of the Society's internal quality control and risk management systems internal audit function;
- 10.4.10. 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.

## 10.5. External Audit

The Committee shall:

- 10.5.1. shall lead the process for selecting or removing the external auditor and make appropriate recommendations through the Board to the members to consider at the AGM, ensuring that the external audit services contract is put to tender in accordance with applicable laws and regulations. If the external auditor were to resign from office, the Committee Chair shall have all such powers necessary to investigate the issues leading to the resignation and to consider whether any action is required;
- 10.5.2. consider, and make recommendations to the Board, on the appointment of the external auditor, and to review and monitor the objectivity and independence of the external auditor, ensuring that the key partner(s) are rotated at appropriate intervals.
- 10.5.3. 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 reappointment together with the Board's reasons for taking a different position;
- 10.5.4. oversee the relationship with the external auditor including (but not limited to):
  - 10.5.4.1. negotiation and agreement of their letter of engagement, 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 and to review the terms of engagement;
  - 10.5.4.2. 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;
  - 10.5.4.3. 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 the Committee shall review the potential services or employment of any former employee of its external auditors;
  - 10.5.4.4. to review formally the effectiveness of the external audit process, including 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, whilst taking into consideration relevant UK professional and regulatory requirements.
  - 10.5.4.5. to review the Financial Reporting Council's annual report on the external auditor and discuss the report with the external auditor and management to obtain an understanding of how any issues identified will be addressed.
- 10.5.5. 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;



- 10.5.6. 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;
- 10.5.7. review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
  - 10.5.7.1. a discussion of any major issues which arose during the audit;
  - 10.5.7.2. the auditor's explanation of how the risks to audit quality were addressed;
  - 10.5.7.3. key accounting and audit judgements; and
  - 10.5.7.4. levels of errors identified during the audit.
- 10.5.8. review any representation letter(s) requested by the external auditor before they are signed by management;
- 10.5.9. review the management letter and management's response to the auditor's findings and recommendations;
- 10.5.10. review the effectiveness of the audit process, including the auditor's view of their interactions with senior management, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee; and
- 10.5.11. monitor and develop the 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.

#### 10.6. Non-Audit services undertaken by the appointed external auditors

- 10.6.1. 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
- 10.6.2. The policy should include consideration of the following matters:
  - 10.6.2.1. the nature of the non-audit services;
  - 10.6.2.2. whether the external audit firm is the most suitable supplier of the non-audit service;
  - 10.6.2.3. the fees for the non-audit services, both individually and in aggregate, relative to the audit fee;
  - 10.6.2.4. the criteria governing compensation;
  - 10.6.2.5. acquisition due diligence;
  - 10.6.2.6. employee secondment other than incidental ad hoc assignments which will not compromise audit independence, which are permitted; and
  - 10.6.2.7. any other engagement not specifically prohibited or allowed.

#### 10.7. Whistle-blowing and Fraud

The Committee shall:

- 10.7.1. 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;

10.7.2. review the Society's procedures for detecting fraud; and

10.7.3. receive and review the procedure for assessment of the system of governance, in relation to Whistleblowing and Fraud, including evidencing adequacy.

## **11. Reporting Responsibilities**

11.1. 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:

11.1.1. the significant issues that it considered in relation to the financial statements (required under paragraph 10.2.1.2) and how these were addressed;

11.1.2. its assessment of the effectiveness of the external audit process (required under paragraph 10.5.4.5) and its recommendation on the appointment or reappointment of the external auditor;

11.1.3. 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

11.1.4. any other issues on which the Board has requested the Committee's opinion.

11.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

11.3. 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:

11.3.1. 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;

11.3.2. 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;

11.3.3. and all other information requirements set out in the AFM Corporate Governance Code.

11.4. 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.

## **12. Other Matters**

The Committee shall:

- 12.1. have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 12.2. 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;
- 12.3. 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;
- 12.4. be responsible for co-ordination of the internal and external auditors;
- 12.5. oversee any investigation of activities which are within its terms of reference;
- 12.6. work and liaise as necessary with all other Board Committees; and
- 12.7. 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.

## **13. Authority**

The Committee is authorised to:

- 13.1. seek any information it requires from any employee or director of the Society in order to perform its duties;
- 13.2. obtain, at the Society's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
- 13.3. call any employee to be questioned at a meeting of the Committee as and when required;
- 13.4. 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
- 13.5. 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.

**Approved by the Board  
February 2025**