

# Board Audit Committee

## Terms of Reference

### 1. Purpose

The Board Audit Committee is responsible for the monitoring and review of the financial reporting process, internal controls and risk management systems, and the effectiveness of the Internal Audit & Compliance functions. It is also responsible for ensuring an independent and effective External Audit process, which includes making recommendations to the Board on the appointment and removal of the External Auditors.

### 2. Membership

Appointments to the Committee are made by the Board Nominations Committee in consultation with the Chair of the Committee.

All members of the Committee shall be Non-Executive Directors, at least one of whom shall have significant, recent and relevant financial experience.

The Committee shall be comprised of at least three members, one of whom will be designated Chair. The Chairman of the Board shall not be a member of the Committee.

The Chair of the Board Risk Committee shall be a member of the Committee.

Other individuals, such as the Group CEO, Group Finance Director, Chief Conduct Risk Officer, Chief Financial Risk Officer, External Audit representatives, Chief Internal Auditor and the Head of Compliance Monitoring may be invited to attend all or part of any meeting to facilitate effective operation of the Committee.

Any Non-Executive Director may, with the agreement of the Chair of the Committee, attend any meeting of the Committee.

### 3. Quorum

Meetings of the Committee shall be quorate where attended by a minimum of two members.

### 4. Frequency of Meetings

The Committee shall meet at least four times each year, or on a more frequent basis as agreed by the Chair of the Committee.

The Committee will meet, at least once per year, in private session without members of the Executive team present.

### 5. Secretary

The Society Secretary or their nominee shall act as secretary to the Committee.

### 6. Reporting Responsibilities

Minutes of the Committee shall be submitted to the Board in the month following each meeting. In addition, the Chair of the Committee will provide a verbal update to the next Board after each meeting of the Committee on the key matters considered by the meeting.

The Committee shall report to the Board on how it has discharged its responsibilities including:

- The significant issues it considered in relation to the financial statements and how these issues were addressed.
- Any matter where the Committee is not satisfied with elements of proposed financial reporting by the business.
- The assessment of the effectiveness of the external audit process and its recommendations on the appointment or reappointment of the external auditor.
- Any other matter on which the Board has requested the Committee's opinion.

### 7. Annual General Meeting

The Chair of the Committee shall attend the Annual General Meeting prepared to respond to any member questions on the Committee's activities.

### 8. Duties of the Committee

#### 8.1 External Audit

The Committee shall;

- 8.1.1 Review and make recommendations to the Board, on the appointment, re-appointment and removal of the External Auditors, to be put to members for approval at the AGM. In the event of the resignation of the external auditor, the Committee shall investigate the issues giving rise to the resignation and consider whether any action is required. The Committee shall review the appointment of the current External Audit firm on a regular basis in accordance with good corporate governance practices. Where the Committee recommends considering the selection of new external auditors, the Committee shall oversee the selection process and ensure that all tendering firms have the necessary access to information and individuals during the tender process.
- 8.1.2 Oversee the relationship with the External Auditor including (but not limited to) reviewing and agreeing the terms of engagement of External Audit and the level of audit and non-audit fees due to the External Auditors to ensure their independence and objectivity. Specifically this will include developing and implementing a policy on the engagement of the external auditor to supply non-audit services, which will be reviewed at least annually. In developing the policy, the Committee will consider those areas recommended by the Financial Reporting Council Guidance on Audit Committees as relevant.
- 8.1.3 Assess the qualification, expertise, resources, effectiveness and independence of the External Auditors annually, taking into consideration relevant ethical Standards for Auditors. Where the Committee decides that it is necessary to extend the audit engagement partner's period of rotation by up to two years, the Committee shall disclose this fact to the Society's members as early as practicable.
- 8.1.4 Review the audit Representation Letters, giving particular attention to non-standard issues.
- 8.1.5 Consider and approve the scope and planning of the external audit process, including planned levels of materiality, proposed resources, the seniority, expertise and experience of the audit team.
- 8.1.6 At the end of the annual audit cycle formally review and assess the effectiveness of the annual audit cycle.
- 8.1.7 Consider any issues arising from the External Auditors' interim and final audits, including the auditor's Management Letter in order to assess whether such outputs are based on a good understanding of the Society's business and ensure that management proposals to address any issues raised are satisfactory and appropriately actioned.
- 8.1.8 Meet at least annually with External Auditors in private, to discuss their remit and any issues arising from the audit.
- 8.1.9 Report to the Board, identifying any matters in respect of which the Committee considers that action or improvement is needed and making recommendations as to the steps to be taken.

#### 8.2 Financial reporting and internal controls

The Committee shall;

- 8.2.1 Review and approve the Group financial statements, interim reports, preliminary announcements and related formal statements, before submission to and approval by

the Board, and before clearance by the External Auditors ('the financial information').

Particular challenge and focus will be placed upon:

- the appropriateness of the Group's critical accounting policies and practices, and any changes to them;
- the clarity and completeness of disclosures in the financial information and whether disclosures have been set properly in context;
- significant estimates or judgmental areas contained in the financial information above;
- significant or unusual transactions or events that have occurred in the period and how they are accounted for and disclosed;
- the going concern and longer term viability assumptions;
- significant financial adjustment arising from the external audit;
- the views of the External Auditor;
- compliance with accounting standards, legal, regulatory and stock exchange requirements;
- the integrity and clarity of disclosures in the financial information above;
- findings from Internal Audit and Compliance Monitoring reports;
- the statements included in the Annual Report in relation to the internal control and the management of risk; and
- the statements included in the Annual Report regarding how the Committee oversees the external audit process.

8.2.2 Review and consider any correspondence from the Financial Reporting Review Panel (or any other such similar organisations).

### 8.3 Internal control and risk management

The Committee shall;

- 8.3.1 Review the effectiveness of the Group's internal controls (financial and other) by receiving reports from Group Internal Audit, Risk and Compliance regarding the operation of the Group's internal controls and risk management systems. Where appropriate, seek management assurance where concerns arise regarding the progress of remedial action.
- 8.3.2 Receive and consider relevant MI from the business including Audit, Risk and Compliance reports and, where applicable, reports relating to material incidents, losses, breaches, fraud and complaints.
- 8.3.3 Review and monitor the effectiveness of the Group's policies and procedures for preventing and detecting fraud. In addition, consider the Group's procedures for whistle-blowing and ensure that arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or any other matters.
- 8.3.4 Meet at least annually with each of the Chief Conduct Risk Officer and the Chief Financial Risk Officer in private to discuss their remit and any issues arising from their work.
- 8.3.5 Meet, at least annually, with the Finance Director of Connells Limited, Skipton International Limited, Skipton Business Finance Limited and Jade Software Corporation in private to provide the opportunity for any relevant issues to be raised directly with Committee members.
- 8.3.6 Report to the appropriate senior Group executive and the Board where there are concerns regarding the response of management to control weaknesses.

### 8.4 Internal Audit

The Committee shall;

- 8.4.1 Monitor and review the effectiveness of Internal Audit. This will include obtaining an independent and objective external assessment, at least, every five years.
- 8.4.2 Review and approve the Annual Audit Plan, having due regard to those areas covered by the Society's

Compliance Monitoring function to ensure that key control areas are appropriately covered by reference to the Group's and Committee's assessment of key risks.

- 8.4.3 Review and approve the Audit budget, ensuring the budget is appropriate to deliver the required level of internal audit assurance.
- 8.4.4 Receive and consider the findings of Internal Audit reports on a quarterly basis.
- 8.4.5 Review and monitor management's responsiveness to Internal Audit's findings and recommendations, particularly focussing on those issues assessed as High or Extreme risks.
- 8.4.6 Meet, at least annually, with the Chief Internal Auditor in private.
- 8.4.7 Ensure that Internal Audit resource is adequate in terms of numbers, knowledge, skills, authority and disciplines to provide the coverage required to review key risks.
- 8.4.8 Oversee the co-operation and co-ordination of the internal and external audit effort ensuring that cost efficiencies are maximised without impairing the independence of either function.
- 8.4.9 Ensure that Internal Audit remains independent of business operations and that the Chief Internal Auditor's reporting line to the Group Chief Executive is for administrative matters only.
- 8.4.10 On an annual basis, review and approve the Audit Charter.

### 8.5 Chief Internal Auditor Performance

- 8.5.1 The Chair of the Committee shall set the annual objectives of the Chief Internal Auditor and review their performance against these with input from the Group CEO. This should include assessment of the Chief Internal Auditor's independence. The Chair of the Committee shall recommend any salary changes to the Group Remuneration Committee arising from this annual performance review.
- 8.5.2 The Committee will annually, where the Chief Internal Auditor has been in post for seven years, explicitly discuss the Chair of the Committee's assessment of the Chief Internal Auditor's independence and objectivity.
- 8.5.3 The Chair of the Committee is responsible for the appointment and removal of the Chief Internal Auditor. This will be done in liaison with the Group CEO.

### 8.6 Compliance Monitoring

The Committee shall;

- 8.6.1 Monitor and review the effectiveness of the SBS Compliance Monitoring function.
- 8.6.2 Review and approve the Annual SBS Compliance Monitoring Plan, having due regard to those areas covered by Internal Audit to ensure that key control areas are appropriately covered by reference to the Group's and Committee's assessment of key risks.
- 8.6.3 Receive and consider the findings of SBS Compliance Monitoring reports on a quarterly basis.
- 8.6.4 Review and monitor management's responsiveness to SBS Compliance Monitoring's findings and recommendations, particularly focussing on those issues assessed as High or Extreme risk.
- 8.6.5 Ensure that SBS Compliance Monitoring resource is adequate in terms of numbers, knowledge, skills, authority and disciplines to provide the coverage required to review key conduct risks.

### 8.7 Authority

The Committee is authorised to;

- 8.7.1 Investigate any activity within its terms of reference.
- 8.7.2 Obtain external legal or other independent professional advice, at the Group's expense, as it considers necessary to undertake its duties and to secure the attendance of any such advisers at any meetings of the Committee;

- 8.7.3 Seek any information it requires from any employee of the Society or any of its subsidiary companies in order to perform its duties;
- 8.7.4 Invite any employee to attend a meeting of the Committee as and when required.

## 8.8 Other

The Committee shall;

- 8.8.1 Maintain awareness of evolving best practice on corporate governance in relation to Audit Committees and make recommendations to the Board for change, where appropriate.
- 8.8.2 Receive significant correspondence between the Society and its subsidiaries and its regulators, which relate to governance, process and systems related matters for formal review and consideration, as appropriate.
- 8.8.3 Ensure that relevant training in financial reporting and regulatory matters, both on joining the Committee and on an ongoing basis, is completed to ensure that sufficient challenge can be provided surrounding key financial reporting matters, regulatory requirements and developments.
- 8.8.4 Review, on an annual basis, both the effectiveness of the Committee in meeting its objectives and its terms of reference.

- 8.8.5 Prepare a report on its role and responsibilities and the action it has taken to discharge those responsibilities for inclusion within the financial statements. Such a report will specifically include:
  - a summary of the role of the Committee;
  - the names and qualifications of all members of the Committee during the period;
  - the number of meetings and attendance by each member; and
  - the way the Committee has discharged its responsibilities.

8.8.6 Where disagreements between the Committee and the Board cannot be resolved, the Committee shall report the issue to the members as part of the report on its activities in the Society's Annual Report.

8.8.7 If the Board does not accept the Committee's recommendation regarding the appointment, reappointment or removal of the External Auditors, the Committee shall include a statement explaining its recommendation and reasons why the Board has taken a different stance in the Annual Report.

## 9. Annual Review

The Committee's Terms of Reference shall be reviewed, at least, annually with agreed changes presented to the Board for approval.

