



Skipton Building Society

Board Audit Committee terms of reference

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1. Purpose

The Board Audit Committee (the “**Committee**”) is responsible for the monitoring and review of the integrity of the financial statements and related reports, internal controls and risk management systems, and the effectiveness of the Internal Audit & Compliance functions across the Skipton Group (the “**Group**”) which is defined as Skipton Building Society (the “**Society**”) and its subsidiary undertakings including the following key businesses:

- Skipton Business Finance;
- Connells;
- Skipton International; and
- Jade.

It is also responsible for ensuring an independent and effective External Audit process, which includes making recommendations to the Society’s board of directors (the “**Board**”) on the appointment and removal of the external auditors.

2. Duties of the Committee

The Committee will carry out the duties below for the Society and the Group as a whole:

2.1 External Audit

The Committee shall:

- 2.1.1 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. In doing so the Committee shall have regard to the standards set out in the Financial Reporting Council’s Audit Committees and the External Audit: Minimum Standard guide.
- 2.1.2 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.
- 2.1.3 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.
- 2.1.4 Review the audit representation letters, giving particular attention to non-standard issues.
- 2.1.5 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.
- 2.1.6 At the end of the annual audit cycle formally review and assess the effectiveness of the annual audit cycle.

- 2.1.7 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.
- 2.1.8 Meet at least annually with external auditors in private, to discuss their remit and any issues arising from the audit.
- 2.1.9 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.
- 2.1.10 Agree with the Board a policy on the employment of former employees of the external auditor and monitor the implementation of that policy.

2.2 Financial reporting and internal controls

The Committee shall;

- 2.2.1 Review and approve the Group financial statements, interim reports, preliminary announcements related formal statements and supporting papers, 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;
 - whether the financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary to members to assess the Society's performance, business model and strategy;
 - the going concern and longer-term viability assumptions;
 - significant financial adjustment or differences 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 Society's annual report regarding how the Committee oversees the external audit process.
- 2.2.2 Review and consider any correspondence from the Financial Reporting Review Panel (or any other such similar organisations).

2.3 Internal control and risk management

The Committee shall:

- 2.3.1 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, and an annual report from the Group Finance Director reviewing the adequacy of resource across the Group's finance teams. Where appropriate, seek management assurance where concerns arise regarding the progress of remedial action.

- 2.3.2 Receive and consider relevant MI from the business including, Audit and Compliance reports, and where applicable, reports relating to material incidents, losses, breaches, fraud and complaints.
- 2.3.3 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 Speaking Out (whistleblowing) and ensure that arrangements are in place by which colleagues, members and suppliers may, in confidence and, if they wish anonymously, raise concerns; ensuring that arrangements are in place for the proportionate and independent investigation of such matters and follow-up action.
- 2.3.4 Meet, at least annually, with each of the Group Chief Risk Officer in private to discuss their remit and any issues arising from their work.
- 2.3.5 Meet, at least annually, with the Group Chief Financial officer, 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.
- 2.3.6 Report to the appropriate senior Group executive and the Board where there are concerns regarding the response of management to control weaknesses.

2.4 Internal Audit

The Committee shall:

- 2.4.1 Monitor and review the effectiveness of Internal Audit and its performance against agreed objectives and the Audit Charter. This will include obtaining an independent and objective external assessment, at least every five years.
- 2.4.2 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.
- 2.4.3 Review and approve the audit budget, ensuring the budget is appropriate to deliver the required level of internal audit assurance.
- 2.4.4 Receive and consider the findings of Internal Audit reports on a periodic basis.
- 2.4.5 Review and monitor management's responsiveness to Internal Audit findings and recommendations, particularly focussing on those issues assessed as High or Extreme risk.
- 2.4.6 Meet, at least annually, with the Chief Internal Auditor in private.
- 2.4.7 Ensure that Internal Audit has unrestricted scope and that Internal Audit resource is adequate in terms of numbers, knowledge, skills, authority and disciplines to provide the coverage required to review key risks.
- 2.4.8 Ensure that Internal Audit has unrestricted scope, full access to the information required to complete its work and that there is acceptance of Internal Audit and its remit throughout the group
- 2.4.9 Oversee the co-operation and co-ordination of the internal and external audit effort so that opportunities for cost efficiencies are maximised without impairing the independence of either function.
- 2.4.10 Ensure that Internal Audit remains independent of business operations and that the Chief Internal Auditor's reporting line to the Group CEO is for administrative matters only.

- 2.4.11 Monitoring and reviewing the effectiveness of Internal Audit's review of the Climate Change Risk Management Framework.
- 2.4.12 At least on an annual basis, receive a report on the effectiveness of Model Risk Management.
- 2.4.13 On an annual basis, review and approve the Audit Charter.

2.5 Group Chief Internal Auditor Performance

- 2.5.1 The Chair of the Committee shall set the annual objectives of the Group 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.
- 2.5.2 The Committee will annually, where the Group 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.
- 2.5.3 The Chair of the Committee is responsible for the appointment and removal of the Group Chief Internal Auditor. This will be done in liaison with the Group CEO.

2.6 Compliance Monitoring

The Committee shall:

- 2.6.1 Monitor and review the effectiveness of the Society's Compliance Monitoring function.
- 2.6.2 Review and approve the Annual 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.
- 2.6.3 Receive and consider the findings of Compliance Monitoring reports on a quarterly basis.
- 2.6.4 Review and monitor management's responsiveness to Compliance Monitoring's findings and recommendations, particularly focussing on those issues assessed as High or Extreme risk.
- 2.6.5 Ensure that Compliance Monitoring resource is adequate in terms of numbers, knowledge, skills, authority and disciplines to provide the coverage required to review key conduct risks.

3. Membership

- 3.1 Appointments to the Committee are made by the Board following consideration of recommendations by the Board Nominations Committee in consultation with the Chair of the Committee.
- 3.2 All members of the Committee shall be non-executive directors, at least one of whom shall have significant, recent and relevant financial experience.
- 3.3 The Committee shall be comprised of at least three members, one of whom will be designated Chair. The Chair of the Board shall not be a member of the Committee.
- 3.4 The Chair of the Board Risk Committee shall be a member of the Committee.
- 3.5 Other individuals, such as the Group Chief Executive, Group Chief Financial Officer, Group Chief 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.

- 3.6 Any non-executive director may, with the agreement of the Chair of the Committee, attend any meeting of the Committee. Decisions shall be taken in accordance with the Committee's responsibilities described in these terms of reference by a majority vote of Committee members.

4. Quorum

- 4.1 Meetings of the Committee shall be quorate where attended by a minimum of two members.
- 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 Board.
- 4.3 Members of the Committee shall be deemed to meet together if they are in separate locations, but are linked by conference telephone, video or other electronic communications equipment. Such a meeting shall be deemed to take place where the largest group of members of the Committee participating is assembled or if there is no such group where the Chair of the meeting is present.

5. Frequency of Meetings

- 5.1 The Committee shall meet at least four times each year, or on a more frequent basis as agreed by the Chair of the Committee.
- 5.2 The Committee will meet, at least once per year, in private session without members of the Executive team present.

6. Administration

The Group Secretary and General Counsel or their nominee shall act as secretary to 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.

7. Authority and Reporting

- 7.1 The Committee is a committee of the Board and has delegated authority from the Board to which it reports.
- 7.2 The Committee is authorised to:
- 7.2.1 Investigate any activity within its terms of reference.
- 7.2.2 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;
- 7.2.3 Seek any information it requires from any employee of the Society or any of its subsidiary companies in order to perform its duties;
- 7.2.4 Delegate any or some of its responsibilities and authority as it sees fit, including to a sub-committee, in relation to specific issues and subject to reporting back to the Committee, and
- 7.2.5 Invite any employee to attend a meeting of the Committee as and when required.
- 7.3 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;
- Its consideration of the effectiveness of the group's internal controls and its consideration of the Group's Speak Out (whistleblowing) arrangements;
- The assessment of the effectiveness of the external audit process and its recommendations on the appointment or reappointment of the external auditor, and
- Any other matter on which the Board has requested the Committee's opinion.

8. 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 or any matter within the remit of the Committee.

9. Other

The Committee shall;

- 9.1 Maintain awareness of evolving best practice on corporate governance in relation to Audit Committees and make recommendations to the Board for change, where appropriate.
- 9.2 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.
- 9.3 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.
- 9.4 Receive regular reports on matters falling within the remit of the Committee in relation to group businesses.
- 9.5 Review on an annual basis both the effectiveness of the Committee in meeting its objectives and its terms of reference.
- 9.6 Provide the Remuneration Committee with input to assist that Committee in its assessment of possible impacts on variable remuneration.
- 9.7 Review and approve the statements to be included in the Annual Report and Accounts concerning the role and responsibilities of the Committee and the action it has taken to discharge those responsibilities, including:
 - 9.7.1 a description of the significant issues that the committee considered in relation to the financial statements and how these issues were addressed;
 - 9.7.2 an explanation of how the committee has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans; and
 - 9.7.3 an explanation of how auditor independence and objectivity are safeguarded.
- 9.8 Give due consideration to all relevant laws and regulations, the provisions of the UK Corporate Governance Code and published guidance, the requirements of the FCA's Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules, as appropriate.

- 9.9 In circumstances where any 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.
- 9.10 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.
- 9.10 Work and liaise as necessary with other board committees, ensuring the interaction between committees and with the board is reviewed regularly.

10. Annual Review

- 10.1 The Committee's Terms of Reference shall be reviewed, at least, annually with agreed changes presented to the Board for approval.
- 10.2 The Committee shall work and liaise as necessary with other Board committees, ensuring the interaction between committees and with the board is reviewed regularly.
- 10.3 The Committee shall conduct an annual review of these terms of reference for approval by the Board.

DOCUMENT GOVERNANCE AND VERSION CONTROL

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