

AUDIT AND RISK COMMITTEE

TERMS OF REFERENCE OF THE AUDIT AND RISK COMMITTEE

1. PURPOSE

1.1 The Committee shall have oversight of the group as a whole and, unless required otherwise by regulation, carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole.

1.2 The role of the Audit and Risk Committee is to:

- Monitor and review the financial reporting process, internal control and risk management systems, the effectiveness of the assurance framework. This will include but not limited to the Internal Audit function, other direct assurance providers e.g. compliance teams, etc. Ensure the independence of the External Audit, Internal Audit and other Risk functions and processes including making recommendations to the Board on the appointment and removal of the External Auditors.
- Ensure that there is proper consideration and assessment of future risks ensuring that management develop appropriate strategies to mitigate the risks to which the business is exposed to.
- Monitor and ensure good governance principles are applied through the business as part of the core risk management processes

2. Membership

2.1 Members of the Committee shall be appointed by the Board on the recommendation of the Board Search and Membership Committee in consultation with the Chair of the Committee. The Committee shall be made up of up to 5 Board members

2.2 The Chair of the Society's Board shall not be a member of the Committee.

2.3 At least one member of the Committee shall have recent and relevant financial experience.

2.4 Only members of the Committee have the right to attend Committee meetings. However, the Chief Financial Officer, Head of Internal Audit and external audit lead partner 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.

2.5 To help ensure holistic oversight, a member of the Committee shall also be a member of the Remuneration Committee.

3. Secretary

The Group Secretary, or his or her nominee, shall act as the Secretary of the Committee.

4. Quorum

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

5. Frequency of meetings

The committee shall meet at least four times a year and will meet, at least once a year, in private session without members of the Senior Leadership team being present.

6. Notice of meetings

Notice of each meeting confirming the venue, time and date together with an agenda shall be sent five working days before the date of the meeting.

7. Annual General Meeting

The Chair of the Committee shall attend the Annual General Meeting prepared to respond to any member question 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 nonaudit 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.
- 8.1.4 Review the audit Letter(s) of Representation, 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. This shall include but not be limited to, the following:

- a discussion of any major issues which arose during the audit;
- the auditor's explanation of how the risks to audit quality were addressed;
- key accounting and audit judgements;
- the auditor's view of their interactions with senior management; and
- levels of errors identified during 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.

8.1.10 Agree with the Board a policy on the employment of former employees of the Society's auditor, taking into account legal requirements, and monitor the application of this policy.

8.2 Financial reporting – The Committee Shall:

8.2.1 The Committee shall monitor the integrity of the financial statements of the Society, including its annual and half-yearly reports, and any other formal statements relating to its financial performance, and review and report to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor.

8.2.2 In particular, the committee shall review and challenge where necessary:

- The appropriateness of significant accounting policies and practices and any changes to them.
- The clarity and completeness of disclosures in the Society's financial information and whether disclosures have been set in the proper context.
- Significant estimates or judgements contained in the Society's financial information.
- The methods used to account for significant or unusual transactions where different approaches are possible.
- Going concern assumptions.
- All material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management.

8.2.3 The Committee shall review any other statements requiring Board approval which contain financial information first, where to carry out a review prior to Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation.

8.2.4 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.

8.2.5 Where requested by the Board, the Committee should 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 to assess the Society's performance, business model and strategy.

8.3 Internal Controls and Risk Management Systems – The Committee Shall:

8.3.1 Keep under review the effectiveness of the Society's internal financial controls systems by receiving reports from Internal Audit and Risk regarding the operation of Society's internal controls and risk management systems and seek management assurance where concerns or weaknesses have been identified regarding the progress of remedial action.

8.3.2 Receive and consider appropriate MI relating to material incidents, losses, regulatory breaches and fraud.

8.3.3 Review and monitor the effectiveness of the Society's financial crime related polices including policies and procedures for preventing and detecting fraud.

8.3.4 Report to the Board where there are concerns regarding the response of management to control weaknesses. Review and approve the statements to be included in the annual report concerning internal control, and risk management

8.3.5 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.

8.3.6 Review the Society's systems and controls for the prevention of bribery

8.3.7 Keep under review the adequacy and effectiveness of the Society's compliance function.

8.4 Internal Audit – The Committee Shall:

8.4.1 Monitor and review the effectiveness of the provision of Internal Audit services. This will include obtaining an independent and objective external assessment, at least, every five years. The Committee shall review the appointment of the current Internal Audit service provider on a regular basis Where the Committee recommends considering the selection of new service provider 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.

8.4.2 Set, monitor and review performance related targets as considered appropriate for the Internal Audit service provider

8.4.3 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 Society's and Committee's assessment of key risks.

- 8.4.4 Review and approve the Audit budget, ensuring the budget is appropriate to deliver the required level of internal audit assurance.
- 8.4.5 Receive and consider the findings of Internal Audit reports on a quarterly basis.
- 8.4.6 Review and monitor management's responsiveness to Internal Audit's findings and recommendations, particularly focussing on those issues assessed as High or Extreme risks.
- 8.4.7 Meet, at least annually, with the Internal Auditor in private.
- 8.4.8 Ensure that Internal Audit service provider is adequately resourced in terms of numbers, knowledge, skills, authority and disciplines to provide the coverage required to review key risks.
- 8.4.9 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.
- 8.4.10 Ensure that Internal Audit remains independent of business operations.
- 8.4.11 On an annual basis, review and approve the Audit Charter.

8.5 Compliance Monitoring – The Committee Shall:

- 8.5.1 Monitor and review the effectiveness of the Society's Compliance Monitoring function.
- 8.6.2 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 Society's and Committee's assessment of key risks.
- 8.6.3 Receive and consider the findings of Compliance Monitoring reports on a quarterly basis.
- 8.6.4 Review and monitor management's responsiveness to Compliance Monitoring's findings and recommendations, particularly focussing on those issues assessed as representing a high or critical level of risk exposure.
- 8.6.5 Ensure that Compliance Monitoring resources are adequate in terms of numbers, knowledge, skills, authority and disciplines to provide the coverage required to review key conduct risks

8.7 Risk Assessment and Management – The Committee shall:

- 8.7.1 Consider on an annual basis and recommend for approval by the Board the Society's Risk Appetite for current and future strategy taking account of the current and prospective macroeconomic and financial environment.

- 8.7.2 Ensure that the Society's business strategy is informed by and aligned with the agreed risk appetite.
- 8.7.3 Review major initiatives such as acquisitions or new initiatives and be assured that appropriate due diligence has been carried out and that the associated movement in risk profile remains within risk appetite, unless these are to be considered directly by the Board.
- 8.7.4 Monitor key risk exposures ensuring that management is exercising appropriate control to reduce the likelihood of risk crystallisation resulting in financial loss, reputational damage or regulatory concern.
- 8.7.5 Oversee the risk control framework. Ensuring that the Society implements an effective risk governance structure and control framework which envelops all risk areas with appropriate reporting regimes; and oversee the Society's risk profile, challenging the assessment and measurement of key risks while monitoring the actions taken to manage/mitigate them.
- 8.7.6 Oversee the control framework to ensure effective operational resilience arrangements are in place across the Group designed to provide a reliable service to customers and clients.
- 8.7.7 On behalf of the Board review, challenge and approve the Society's risk management related policies on, at least, an annual basis ensuring these remain aligned to the Board's overarching Risk Appetite, ensuring that the Board is advised of all material change.
- 8.7.8 Review and challenge of the financial and operational risks arising from climate change and management strategy to mitigate these risks.
- 8.7.9 Review Remuneration Committee proposals regarding Society executive Incentive Scheme objectives and provide an opinion to the Remuneration Committee on whether there are suitable risk management objectives included and, where appropriate, whether risk weightings attached to these objectives are suitable.
- 8.7.10 Receive reports on the suitability of business resilience, contingency arrangements and information security (including IT/Digital control matters) across the Society on, at least, an annual basis including approval of the Business Continuity Plan.
- 8.7.11 Obtain such professional external advice as the Committee deems appropriate as a means of taking full account of relevant risk experience elsewhere and in challenging its analysis and assessment.
- 8.7.12 Challenge and support management to embed an appropriate risk culture so that colleagues are alive to the wider impact on the organisation of their actions and decisions and respond accordingly.
- 8.7.13 Ensure the independence of the Risk function.

8.8 Governance – The Committee Shall:

8.8.1 Not less than annually satisfy itself that appropriate corporate governance arrangements have been maintained having regard to the provisions of the UK Corporate Governance Code/Co-operatives Corporate Governance Code.

8.8.2 Monitor and make recommendations to the Board on board governance issues including (but not limited to) the establishment of appropriate policies and practices to enable the Board to operate effectively and efficiently.

8.8.3 Determine and lead the process for the annual review of the Board Effectiveness Review, engaging external independent facilitators as required and overseeing the implementation of any recommendations or action plan.

8.8.4 Not less than annually review the Register of Directors' Interests and not less than triennially review and approve the Gifts and Hospitality Policy.

9. Reporting Responsibilities

The Chair of the Committee shall report to the Board after each meeting, make recommendations to the Board and shall compile a report on its activities to be included in the Society's annual report.

10. Other Matters

The Committee shall:

- a) have access to sufficient resources in order to carry out its duties,
- b) be provided with appropriate and timely training,
- c) oversee any investigation of activities which are within its terms of reference;
- d) have regard to the Co-operative Corporate Governance Code ("the Code") and other similar relevant Codes.

11. Authority

The Committee is authorised to:

- a) seek any information it requires from any employee of the Society in order to perform its duties;
- b) obtain, at the Society's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
- c) call any employee to be questioned at a meeting of the committee as and when required; and
- d) 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.

