

## Appendix 5(iii) Terms of Reference - Audit Committee

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### Overall Purpose

The main role of the Audit Committee is:

- a) to monitor the integrity of the financial statements of the Society and any formal announcements relating to the Society's financial performance, reviewing significant financial reporting judgements contained in them;
- b) to ensure the Society's internal financial and business control and risk management systems have operated as defined in control documentation and comply with policies, procedures, laws, regulations or other relevant requirements;
- c) to monitor and review the effectiveness of the Society's Internal Audit function;
- d) to make recommendations to the Board in relation to the appointment and remuneration of the external auditors and to monitor and review the external auditor's independence, objectivity and effectiveness, taking into consideration relevant United Kingdom professional and regulatory requirements;
- e) to develop and implement the policy on the engagement of the external auditor to supply non-audit related services;
- f) to review how the Society complies with the principles of best practice in regard to corporate governance and to report annually thereon to the Board.

### Constitution

- 1 The Board hereby resolves to establish a Committee of the Board to be known as the Audit Committee.

### Membership

- 2 The Committee shall be appointed by the Board. All members of the Committee shall be independent non-executive directors of the Society. The Committee shall consist of not less than three members. A quorum shall be two members.
- 3 The Chairman of the Committee shall be appointed by the Board from amongst the independent non-executive directors.

### Attendance at Meetings

- 4 The Finance Director, Head of Internal Audit, a representative of the external auditors and members of senior management shall attend meetings at the invitation of the Committee.
- 5 The Chairman of the Board, the Chief Executive Officer and other Board members shall attend if invited by the Committee.
- 6 There should be at least one meeting a year, or part thereof, where the external auditors attend without management present.
- 7 There should be at least one meeting a year, or part thereof, where the internal auditors attend without management present.
- 8 The Society's Secretary shall be the Secretary of the Committee.

### Frequency of meetings

- 9 Meetings shall be held not less than five times a year and where appropriate should coincide with key dates in the Society's financial reporting cycle.
- 10 External auditors or internal auditors may request a meeting if they consider that one is necessary.

### Authority

- 11 The Committee is authorised by the Board to:
  - a) investigate any activity within its terms of reference;
  - b) seek any information that it requires from any employee of the Society and all employees are directed to co-operate with any request made by the

- Committee; and
- c) obtain outside legal or independent professional advice and such advisors may attend meetings as necessary.

#### **Responsibilities**

##### **12 The responsibilities of the Committee shall be:**

- a) To consider the appointment of the external auditor (and on an annual basis the reappointment of the external auditor) and assess the qualifications, expertise and independence of the external auditor, ensuring that key partners are rotated at appropriate intervals;
- b) Where the external auditor resigns investigate the issues giving rise to the resignation and consider whether any action is required;
- c) To recommend the audit fee to the Board and pre-approve any fees in respect of non-audit services provided by the external auditor and to ensure that the provision of non-audit services does not impair the external auditors' independence or objectivity;
- d) To develop and recommend to the Board the Society's policy in relation to the provision of non-audit services by the external auditor and to ensure that if the auditor provides non-audit services, the annual report explains to Society members how auditor objectivity and independence is safeguarded;
- e) To discuss with the external auditor, before the audit commences, the nature and scope of the audit and to review the auditors' quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements;
- f) To oversee the process for selecting the external auditor and make appropriate recommendations through the Board to the Society's members to consider at the AGM;
- g) To review the external auditors management letter and management's response, in order to assess whether they are based on a good understanding of the Society's business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon;
- h) To review, with the external auditors, the findings of their work;
- i) To ensure the audit plan is developed in conjunction with, and meets the issues identified by the Society's Corporate Risk Register;
- j) To ensure that there is co-ordination between the internal and external auditors and that the internal audit function is adequately resourced, including staff numbers, experience and skills and has appropriate independence and standing within the Society (outsourcing of any element of the internal audit function is considered material and will require the consent of the FSA);
- k) To consider management's response to any major external or internal audit recommendations;
- l) To assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks;
- m) To receive reports from the Head of Internal Audit and discuss, in the absence of management where necessary, sensitive audit findings, including any matters the external auditor may wish to raise, and any other matters of major importance, and report to the Board thereon, together with recommendations for improvements;
- n) To approve the appointment or dismissal of the Head of Internal Audit;

- o) To review the effectiveness of the Internal Audit Department;**
- p) To review the Society's procedures for handling allegations from whistleblowers;**
- q) To review management's and the internal auditor's reports on the effectiveness of systems for internal financial control, financial reporting and risk management;**
- r) To review, and challenge where necessary, the actions and judgements of management, in relation to the interim and annual financial statements before submission to the Board, paying particular attention to:**
  - i) critical accounting policies and practices, and any changes in them**
  - ii) decisions requiring a major element of judgement**
  - iii) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed**
  - iv) the clarity of disclosures, overall balance and wording of disclosures**
  - v) significant adjustments resulting from the audit**
  - vi) the going concern assumption, in view of its increasing importance in financial reporting**
  - vii) compliance with accounting standards**
  - viii) compliance with the stock exchange, the FSA and other legal requirements**
  - ix) reviewing the Society's statement on internal control systems prior to endorsement by the Board and to review the policies and process for identifying and assessing business risks and the management of those risks by the Society, and**
- s) Consider other topics, as defined by the Board;**
- t) To approve written representations to explain the reasons for not adjusting misstatements, to the accounts, brought to their attention by the external auditors;**
- u) To review the Society's compliance with all legislative, regulatory and prudential requirements of its business and with appropriate codes of best practice;**
- v) To consider management's response to major systems and controls issues identified by other control functions such as the Risk Department, the Compliance Department and the Information Security Department.**
- w) To ensure that new and existing members of the Committee receive appropriate training and information as to the workings of the Committee;**
- x) To adhere to and ensure compliance with relevant corporate governance requirements;**
- y) The Chairman of the Audit Committee to attend private meetings with the FSA as and when required.**

#### **Reporting Procedures**

- 13 The Secretary shall circulate the minutes of the meetings of the Committee to all members of the Board, and the Chairman of the Committee or as a minimum, another member of the Committee, shall attend the Board meeting at which the accounts are approved.**
- 14 The Committee members shall conduct an annual review of their work and these terms of reference and make recommendations to the Board.**
- 15 The Committee's duties and activities during the year shall be disclosed in the annual financial statements.**
- 16 The Chairman shall attend the AGM and shall answer questions, through the Chairman of the Board, on the Audit Committee's activities and their**

responsibilities.

- 17** Approved minutes from the Group Risk Committee meetings will be received by the Committee for information and consideration.

**Available Guidance**

- 18** In accordance with the Combined Code on corporate governance issued in June 2008, the Committee shall, in its work, consider the guidance available from the Financial Reporting Council on Audit Committees and on Internal Control.