

THE MIDCOUNTRIES CO-OPERATIVE LIMITED

AUDIT & RISK COMMITTEE

(the Committee)

Terms of Reference

Constitution and Reporting Lines

The Committee was established by a resolution of the Board dated 4 September 2006 (minute 06/165). These terms of reference were approved by the Board at that time. Changes have been made to the terms on 23 October 2006 (minute 06/201.3) and 5 October 2009 (minute 09/148.9).

The Committee is a committee of the Board. It operates within the strategic policy direction established by the Board and is directly accountable to the Board.

1. Membership

- 1.1. The Board will appoint members of the Committee from amongst its number.
- 1.2. The Committee will be made up of at least four members and no more than six.
- 1.3. The President of the Society may not be a member of the Committee.
- 1.4. No employee director, spouse of an employee or supplier to the Society may serve on the Committee. For the avoidance of doubt, employee director in this context also covers those directors who, within the previous 12 months, have left the Society's employment for any reason, including, for example, by way of retirement, redundancy, dismissal, or for alternative employment. For the further avoidance of doubt, supplier to the Society is not deemed to include the supply of occasional services to the Society on an ad hoc basis outside of the finance functions of the Society.
- 1.5. Only members of the Committee and the Secretary (or the Secretary's nominee) have the right to attend Committee meetings. Other individuals, including officers of the Society and external advisers, may be invited to attend all or part of any Committee meeting as and when required.
- 1.6. The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 1.7. Appointments to the Committee will be for a period of up to two years, which may be extended for two further two-year periods.
- 1.8. The Board will appoint the Committee Chair and Vice-Chair.
- 1.9. Should a member miss two or more consecutive meetings of the Committee the Board reserves the right to remove the said member from the Committee.

2. Training

- 2.1. Members of the Committee should be provided with sufficient training to allow them to discharge their duties. This should include:
- .1 an induction for new Committee members covering the role of the Audit Committee, including its terms of reference and the expected time commitment.
 - .2 ongoing training including an understanding of:
 - (a) the principles of, and developments in, financial reporting;
 - (b) Industrial and Provident Society law relating to the legal structure of the Society;
 - (c) financial statements;
 - (d) applicable accounting standards and recommended practice;
 - (e) the role of internal and external auditing; and
 - (f) risk management.

3. Secretary

- 3.1 The Secretary of the Society (or their nominee) will act as the secretary of the Committee.

4. Quorum

- 4.1. The quorum shall be three members of the Committee at least one of whom shall be the Chair or Vice-Chair. A duly convened meeting of the Committee at which a quorum is present will be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

5. Frequency of Meetings

- 5.1. The Committee will hold four scheduled meetings a year at appropriate times in the reporting and audit cycle. Other meetings will be held as required.

6. Notice of Meetings

- 6.1. The agenda and papers for each meeting will be circulated to each member of the Committee and any other person required to attend in line with the timescales for circulation of papers for the Board.
- 6.2. Meetings of the Committee will be summoned by the Secretary (or their nominee). Non-scheduled meetings of the Committee will be held at the request of any two of its members or at the request of the external

or internal auditors. Notice of at least one week must be provided for non-scheduled meetings.

7. Minutes of Meetings

- 7.1. Minutes of the Committee's meetings will be made by the Secretary (or their nominee).
- 7.2. Conflicts of interest must be declared at the beginning of each meeting and will be minuted accordingly.
- 7.3. Minutes will be circulated in line with the practice for the circulation of minutes for the Board.

8. Annual General Meeting

- 8.1. The Chair of the Committee (or in their absence, the Vice-Chair) will attend the Society's Annual Meeting and be prepared to respond to any questions on the Committee's activities.

9. Duties

The Committee will carry out the following duties:

9.1. Financial Reporting

The Committee will:

- .1 monitor the integrity of the financial statements of the Society, including its annual and interim reports;
- .2 review and challenge where necessary:
 - (a) the consistency of, and any changes to, accounting policies both on a year on year basis and across the group;
 - (b) the methods used to account for significant or unusual transactions where different approaches are possible;
 - (c) whether the Society has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - (d) the clarity of disclosure in the Society's financial statements and the context in which statements are made; and
 - (e) all material information presented with the financial statements, such as the corporate governance statement (insofar as it relates to the audit and risk management).

9.2. Internal controls and risk management systems

The Committee will:

- .1 review and keep under review the effectiveness of the Society's internal controls and risk management systems; and
- .2 review and approve the statements to be included in the annual report concerning internal controls and risk management.

9.3. Whistle-blowing

The Committee will review the Society's arrangements for employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and will ensure that these arrangements allow proportionate and independent investigation of such matters and that appropriate follow up action is taken.

9.4. Internal Audit

- .1 The Committee will:
 - (a) monitor and review the effectiveness of the Society's internal audit function in the context of the Society's overall risk management system;
 - (b) approve the appointment and removal of the head of the internal audit function;
 - (c) consider and approve the remit of the internal audit function and ensure that it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards.
 - (d) ensure the internal audit function has adequate standing and is free from management or other restrictions which may impair its independence;
 - (e) review and assess the annual internal audit plan;
 - (f) review all reports on the Society prepared by the head of internal audit;
 - (g) review and monitor management's responsiveness to the findings and recommendations of the head of internal audit; and
 - (h) meet the head of the internal audit function at least once a year, without management being present, to discuss the function's remit and any issues arising from the internal audits carried out.
- .2 The head of internal audit has the right of direct access to the Chair of the Committee.

9.5. External Audit

- .1 The Committee will:

- (a) consider and make recommendations to the Board, concerning the appointment, re-appointment and removal of the Society's external auditors;
- (b) oversee the selection process for new auditors and if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (c) oversee the relationship with the external auditors including (but not limited to):
 - (i) approval of their remuneration, whether fees for audit or non-audit services, ensuring that the level of fees for audit services are appropriate to enable an adequate audit to be conducted;
 - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (iii) assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditors as a whole, and taking into account the provision of any non-audit services;
 - (iv) satisfying itself that there are no inappropriate relationships (such as family, employment, investment, financial or business) between the auditor and the Society, other than in the ordinary course of business;
 - (v) agreeing with the Board a policy on the employment of former employees of the Society's auditors, and monitoring the implementation of this policy;
 - (vi) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Society compared to the overall fee income of the firm, the choice of audit office and partner and other related requirements;
 - (vii) assessing annually their qualifications, expertise and resources, the effectiveness of the audit process, and their internal quality procedures;
 - (viii) meeting regularly with them, in particular, once at the planning stage before the audit and once after the audit at the reporting stage;
 - (ix) meeting them at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
 - (x) reviewing and approving the annual audit plan and ensuring that it is consistent with the scope of the audit engagement;
 - (xi) reviewing the findings of the audit with them, including but not limited to, the following:

- a discussion of any major issues which arose during the audit,
- any accounting and audit judgements, and
- levels of errors identified during the audit.

.2 The Committee will also review the effectiveness of the audit, including:

- (a) reviewing any representation letter(s) requested by the external auditor before they are signed by management;
- (b) reviewing the management letter and management's response to the auditor's findings and recommendations;
- (c) developing and implementing a policy on the supply of non-audit services by the external auditor, taking into account any relevant guidance on the matter.

9.6. Reporting Responsibilities

- .1 The Chair or Vice-Chair of the Committee will report formally to the Board on the proceedings of any Committee meeting at the first Board meeting following.
- .2 The Committee will make whatever recommendations to the Board it deems appropriate on any area within its remit.
- .3 The Committee will compile a report to members on its activities to be included in the Society's annual report.

9.7. Other Matters

The Committee will:

- .1 Have access to sufficient resources in order to carry out its duties, including access to the Society's secretariat for assistance as required;
- .2 Give due consideration to Co-operatives^{UK}'s Corporate Governance Code of Best Practice and the provisions of the Combined Code;
- .3 Oversee any investigation of activities which are within its terms of reference.

10. Review

- 10.1 The Board will, at least once a year, review the performance of the Committee, and its constitution and terms of reference to ensure it is operating effectively.

11. Authority

The Committee is authorised:

- .1 To seek any information it requires from any employee of the Society, via the Secretary, in order to perform its duties;
- .2 To obtain, at the Society's expense, outside legal or other professional advice on any matter within its terms of reference; and
- .3 To call any employee to be questioned at a meeting of the Committee as and when required.

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