

AUDIT & RISK COMMITTEE (the “Committee”)

Terms of Reference

Summary

The Board of Directors has overall responsibility and accountability for risk management, internal control and governance within the Society and defines what is required and their importance. The Board delegates responsibility for monitoring the effectiveness and reliability of practices and procedures in place to the Committee and expects the Committee to keep the Board informed accordingly.

The duties of the Committee are set out at section 9 of these Terms of Reference. In summary, the key role of the Committee, on behalf of the Board, is to monitor and review,

- the integrity of the Society’s financial statements and disclosures;
- the effectiveness of the Society’s internal control and risk management systems and internal audit and risk function;
- the independence, qualifications and performance of the Society’s external auditors;
- the overall rigour of Society Business Plans and to assess them against agreed strategies; and
- the effectiveness of whistleblowing and speak in confidence procedures to support the prevention of wrongdoing and fraud.

In carrying out these responsibilities, the aim of the Committee is to help minimise unforeseen issues arising which may have an adverse impact on the Society’s sustainability and/or reputation

Constitution and Reporting Lines

The Committee was established by a resolution of the Board dated 4 September 2006. These Terms of Reference (“ToR”) were approved by the Board at that time. These ToR were duly reviewed, and/or changes approved, on 23 October 2006, 5 October 2009, 13 April 2015, 19 September 2016, 18 September 2017, 1 April 2019, 2 December 2019, 26 October 2020, 23 November 2020, 6 December 2021, 4 April 2022, 30 May 2022 and 12 September 2022.

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. External consultants cannot serve on the Committee.
- 1.6. 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.
- 1.7. The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 1.8. Appointments to the Committee will be for a period of up to two years, which may be extended for two further two-year periods.
- 1.9. The Chair and Vice-Chair of the Committee shall be chosen by the members of the Committee at the first Committee's meeting following the Society's Board meeting at which appointments to the Board's committees are made.
- 1.10. 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 & Risk Committee, including its ToR and the expected time commitment.
 - .2 ongoing training including an understanding of:
 - (a) the principles of, and developments in, financial reporting;
 - (b) Co-operative and Community Benefit Societies 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 General 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 and associated disclosures 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 judgments, 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 provide assurance to the Board that the Society's control assurance processes are implemented, complete and effective. In particular, the Committee will:

- .1 review and keep under review the effectiveness of the Society's internal controls and risk management systems, including the process in place for identifying and managing risks;
- .2 carry out, on a twice-yearly basis, an assessment of the Society's emerging risks and principal risks;

- .3 review and approve the statements to be included in the Society's annual report & accounts concerning internal controls and risk management;
- .4 in accordance with the large, risky or non-standard transactions policy, review the risks and due diligence process and report to the Board; and
- .5 where requested by the Board, support with developing the risk management process, determining the Society's risk appetite, and test the rigour of the Society's risk register including the scale of the risks and mitigation.

9.3. *Whistleblowing and Speak in Confidence*

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. *Anti-corruption policies*

The Committee will review the Society's Anti-corruption policies (specifically, the Anti-Facilitation of Tax Evasion, Bribery and Fraud, Gifts & Hospitality and Whistleblowing Policies) every two years, to ensure they remain appropriate and reflect current legislation.

9.5. *Internal Audit*

- .1 The Committee will:
 - (a) Carry out, on a yearly basis, an assessment of the internal audit function to:
 - monitor and review its effectiveness in the context of the Society's overall risk management system;
 - review its performance and ensure its compliance with the Charter and the internal audit Plan, as well as the consistency of the Plan against the Society's strategic objectives;
 - review its competency and ensure it has adequate resources to achieve the scope outlined in the internal audit Plan, and appropriate access to information to enable it to perform effectively and in accordance with the relevant professional standards.
 - ensure the internal audit function has adequate standing

and is free from management or other restrictions which may impair its independence;

- (b) on a yearly basis review and discuss the self-assessments carried out by the internal audit function, to ensure any changes or arising issues are timely addressed, and that the results of the self-assessments are consistent with the Committee's perception of the internal audit function's performance;
- (c) instruct and oversee a 5-year external and independent assessment of the internal audit function, to seek reassurance that the internal audit function continues to perform effectively and adequately, and that any applicable legal and regulatory requirements are met by the Society;
- (d) approve the appointment and removal of the head of the internal audit function;
- (e) review all reports on the Society prepared by the Head of Internal Audit;
- (f) review and monitor management's responsiveness to the findings and recommendations of the Head of Internal Audit; and
- (g) meet the Head of Internal Audit 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.

9.6. *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 auditor;
- (b) oversee the selection process for a new auditor 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 auditor 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;
- (i) carrying out, on an annual basis, a review of the performance of the external auditor to ascertain their continued suitability to meet the Society's needs based on their independence, management capabilities and quality of accounting/auditing judgements;
- (ii) carrying out, every 3 years, an in-depth analysis of the external auditor's continued independence and objectivity, taking into account relevant professional and regulatory requirements as well as their understanding and risk assessment capabilities, timetabling/responsiveness/quality judgement/skepticism/quality of reporting and added value to the Society's compliance framework;
- (iii) satisfying itself that there are no inappropriate relationships (such as family, employment, investment, financial or business) between the external auditor and the Society, other than in the ordinary course of business;
- (iv) agreeing with the Board a policy on the employment of former employees of the Society's external auditor, and monitoring the implementation of this policy;
- (v) monitoring the external 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;
- (vi) meeting regularly with them, in particular, once at the planning stage before the audit and once after the audit at the reporting stage;
- (vii) meeting them at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- (viii) reviewing and approving the Annual Audit Plan and ensuring that it is consistent with the scope of the audit engagement;
- (ix) reviewing the findings of the Year End audit report

with them, including but not limited to, the following:

- a discussion of any major issues which arose during the audit,
- any accounting and audit judgments, 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 report to the Committee prepared by the external auditor and discussing management's response to the auditor's comments, 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.

9.7. Business Plans

The Committee will review the Society's business plans to test the rigour of their composition, the underlying assumptions, the risks and mitigations identified, and to assess them against the agreed strategies.

9.8. 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 & accounts.

9.9. 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 ToR.

10. Review

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

11. Authority

- 11.1. 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 ToR; and
- .3 To call any employee to be questioned at a meeting of the Committee as and when required.

- 11.2. The Committee has the right to report to members if the Board overrides a decision/recommendation it has made.