

EARL SHILTON BUILDING SOCIETY

Audit Committee – Terms of Reference

Constitution

The Board has established a Committee to be known as the Audit Committee.

Membership

The Committee comprises three Non-Executive Directors as determined by the Board from time to time, at least one of whom must have recent and relevant financial experience. The Committee is required to be competent and relevant to the Society's sector of operations. The Chairman of the Committee is appointed by the Board. The Chairman of the Board may, if considered independent upon appointment to that role, be a member of the Committee but cannot act as Chairman of the Committee. A quorum shall be two members.

Attendance at meetings

The Committee will meet quarterly. The Chief Executive, the Finance Director, the Financial Controller and representatives of the Internal and External Audit teams will normally be in attendance but may be asked to leave the meeting at certain junctures if this is considered appropriate for the consideration of the business of the meeting at that point. Any other director may attend with the consent of the Chairman of the Committee and the attendance of any member of staff may be required.

Authority

The Committee may hold additional meetings as it feels appropriate. It may seek any information it requires from its employees and may, at its election, obtain legal or other professional advice and secure the attendance of third party advisors with relevant experience and expertise where it considers this is required to facilitate the business of the Committee.

Duties

▪ Annual Financial Statements and External Audit

In accordance with PRA 2016/25, to review the annual financial statements and reports to members before submission to the Board focusing particularly on:

- informing the Board of the outcome of the statutory audit, explaining how the statutory audit contributed to the integrity of financial reporting and the Audit Committee's role within this process;
- monitoring the financial reporting process and submitting recommendations or proposals to ensure its integrity;
- monitoring the effectiveness of the Society's internal quality control and risk management systems including Internal and External Audit and how they have reported on the financial position of the Society;
- monitoring the statutory audit of the annual and consolidated financial statements, in particular, taking into account, where applicable, any findings and conclusions of the Financial Reporting Council Limited pursuant to Article 26(6) of the Statutory Audit Regulation;
- reviewing and monitoring the independence of the Society's External Auditors in accordance with, where applicable, Article 6 of the Statutory Audit Regulation, and in particular the

suitability of the provision of non-audit services to the firm in accordance with Article 5 of the Statutory Audit Regulation;

- the selection of the Society's External Auditors, recommending the audit firm to be appointed, where applicable, in accordance with Article 16 of the Statutory Audit Regulation, except when Article 16(8) of the Statutory Audit Regulation is applied. This should be preceded by an in-depth review at least every seventh year taking account of the independence and objectivity of the audit team.

These requirements include:

To review the annual financial statements and reports to members before submission to the Board having regard to:

- Any changes in accounting policies and practices;
- Major judgmental areas;
- Significant comments or adjustments resulting from the external audit process;
- The going concern assumptions;
- Compliance with accounting standards;
- Compliance with legal and regulatory requirements;
- The clarity of disclosure information.

In addition:

The Audit Committee must:

- Consider and make recommendations on the letter of representation to the external auditor and recommend its approval to the Board.
- Consider and the letter of engagement issued by the external auditor and to recommend its approval to the Board.
- Negotiate the external audit fee and make recommendations to the Board.
- Agree the nature and scope of the external audit plan, including planned levels of materiality.
- Review findings of the external auditor including the annual audit opinion and recommend any necessary actions that arise from the opinion.
- To review and approve the Non-Audit Services Policy
- Before the Board appoints the external auditors to carry out any non-audit services, to consider the appropriateness of such an appointment.
- Where the external auditor has resigned, to fully investigate the reasons for the resignation and determine what action, if any, is appropriate and make recommendations to the Board.

- **Internal Audit**

- To consider and make recommendations upon the appointment of the internal auditor, including an in-depth review at least every seventh year and taking account of the independence, adequacy of resources and skills of the internal audit staff and the overall effectiveness of the internal audit function.
- To approve the letter of engagement issued by the internal auditor.
- To negotiate the internal audit fee and make recommendations to the Board.
- To agree the nature and scope of the internal audit plan, taking account of the resources to be made available and review material alterations to the plan.
- To review reports received from the internal auditor, management responses thereto and consider the appropriateness of the actions proposed.
- The Society supports the Chartered Institute of Internal Audit's Financial Services Code and requires the internal auditor provider to adhere to the Code in all its dealings with the Society.

- **The Society's accounting records and controls**

To consider the adequacy of the Society's accounting systems, records, and financial controls and to make recommendations for improvement where necessary or if thought appropriate.

- **General**

The meeting should also:

- Consider other audit related topics which the Board may request be considered from time to time;
- Assess and report to the Board on the control effectiveness of the third line of defence and offering a judgment of the value added by the Internal and External Audit processes during the year;
- To consider future regulatory and similar developments (horizon scanning) and update the Board, as necessary;
- Review its own terms of reference annually and recommend any changes to the Board;
- Report to the Board indicating how its responsibilities have been discharged;
- Promptly circulate accurate minutes to all members of the Board;
- To consider any other relevant matter not specifically referred to above.

Review

These Terms of Reference, and the Committee's effectiveness, are subject to annual review by the Committee, with the Board ultimately approving the Committee's Terms of Reference.

July 2020