



The Stafford Building Society

Audit Committee

Terms of Reference

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Audit Committee

Terms of Reference

1. Purpose

The principal functions of the Audit Committee are to:

- 1.1 Consider all matters of an audit and compliance nature applying to the Society, including internal controls and financial reporting;
- 1.2 Responsible for the integrated assurance framework incorporating Second and Third Lines of Defence;
- 1.3 Approve the scope and content of Second and Third Line (integrated assurance) and External Audit work; and
- 1.4 Advise the Board on whether the Society's Annual Accounts give a fair, balanced and understandable assessment of the Society's financial position and performance, business model and strategy.

2. Membership

- 2.1 The Committee shall comprise a minimum of three independent Non-Executive Directors at least one of whom shall have recent and relevant financial experience. The Board shall appoint members of the Committee. Members of the Committee shall be appointed annually by the Board in consultation with the Chair of the Audit Committee. The Chair of the Board and Executive Directors shall not be members of the Committee.
- 2.2 Only members of the Committee have the right to attend Committee meetings. However, the Chief Executive and Finance Director shall be expected to attend all meetings unless notified otherwise. Other individuals such as Senior Managers, External and Internal Audit and representatives from the Finance and Risk and Compliance Teams will be invited to attend all or part of any meeting as and when appropriate and necessary. Other Non-Executive Directors may attend all or part of any meeting with prior consent from the Chair.
- 2.3 Appointments to the Committee shall be for a period of one year, which may be extended for further periods of up to five years, provided the Director still meets the criteria for membership of the Committee.
- 2.4 The Board shall appoint the Committee Chair who shall be an independent Non-Executive Director. In the absence of the Committee Chair, the remaining members present shall elect one of themselves to chair the meeting.

3. Secretary

- 3.1 The Executive Directors' Personal Assistant shall act as the Secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable a full and proper consideration to be given to the issues on the agenda.

4. Quorum

- 4.1 The quorum necessary for the transaction of business shall be three members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers, and discretions vested in or exercisable by the Committee.
- 4.2 A majority of votes shall decide all matters. Every member present, including the Chair shall have one vote. In the event of a tie, the Chair shall have a second and casting vote.

5. Frequency of Meetings

- 5.1 The Committee shall meet at least four times a year at appropriate times in the reporting and audit cycle and otherwise as required.

6. Notice of Meetings

- 6.1 The Secretary, in accordance with the agreed annual agenda schedule, shall call meetings of the Committee. Additional meetings may be called by any Committee member or at the request of the Chief Executive if he or she considers it necessary or at the request of the External or Internal Auditor if they consider it necessary.
- 6.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other Non-Executive Directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.
- 6.3 Members of the Board may participate in a meeting by means of Microsoft Teams (or equivalent), that is, 'virtually' where all persons participating can see and hear each other at the same time. Participation by such means shall constitute presence at a meeting.

7. Minutes of Meetings

- 7.1 The Secretary shall minute the proceedings of all meetings of the Committee, including recording the names of those present and in attendance.
- 7.2 The draft minutes will be circulated promptly to the Chair of the Committee. Once reviewed, the minutes should be circulated to all other members of the Committee. The Secretary shall record any conflicts of interest declared at the meeting.
- 7.3 Once approved, the minutes should be submitted to the Board for noting unless it would be inappropriate to do so.

8. Duties

The Committee shall:

<u>Responsibility</u>
<p>Financial Reporting</p> <ul style="list-style-type: none">• Monitor the integrity of the Financial Statements of the Society, including its Annual Report. 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. In particular, the Committee shall review and challenge where necessary:<ul style="list-style-type: none">○ The consistency of, and any changes to, accounting policies;○ The methods used to account for significant or unusual transactions where different approaches are possible;○ Whether the Society has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the External Auditor on the Financial Statements; and○ All material information is presented with the Financial Statements, such as the business/operations review, financial review and the corporate governance statement (insofar as it relates to audit and risk management).• Notwithstanding this clause the Board shall be responsible for approving the Society's Annual Report and Accounts.• 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.

<u>Responsibility</u>
<p>Narrative Reporting</p> <ul style="list-style-type: none">• Recommendation to the Board regarding the approval of:<ul style="list-style-type: none">○ The content of the Annual Report and Accounts and provide advice, where requested by the Board, on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Society's performance, business model and strategy and whether it informs the Board's statement in the Annual Report on these matters that is required under the UK Corporate Governance July 2018 ('Code').

Responsibility

Compliance, Whistleblowing and Fraud

- 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. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.
- Review and approve the annual Whistleblowing Report.
- Review the Society's procedures for detecting fraud.
- Review the Society's systems and controls for the prevention of bribery and receive reports on non-compliance.
- Review regular reports from the Money Laundering Reporting Officer ('MLRO') and the adequacy and effectiveness of the Society's anti-money laundering systems and controls.
- Review and assess the Society's annual Compliance Monitoring Plan.
- Review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Society's Compliance Function.

Responsibility

Internal Controls and Risk Management Systems

- Review the Society's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems, confirming performance by receipt of reports from Internal Audit and Risk and Compliance.
- Review and approve the statements to be included in the Annual Report and Accounts concerning internal controls and risk management.
- Provide challenge of relevant First and Second Level policies as per the Society's Risk Management Framework and recommend those for approval to the Board including the Pillar 3 Disclosure.

Responsibility

Internal Audit

- Approve remuneration and ensure that the level of fees is appropriate to enable an adequate audit to be conducted.
- Monitor and review the effectiveness of the Society's Internal Audit function in the context of the risk management system and the work of Risk and Compliance, Finance and the External Auditor.
- Approve the appointment and removal of the Internal Auditor.
- Review and approve the role and mandate of Internal Audit, monitor and review the effectiveness of its work and annually appraise the Internal Audit Charter, ensuring it is appropriate for the needs of the Society.
- Review and approve the annual Internal Audit Plan to ensure it is aligned to the key risks of the business and receive regular reports on work carried out.
- Review and monitor management's responsiveness to the findings and recommendations of the Internal Auditor.
- Ensure Internal Audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions and that Internal Audit evaluates the effectiveness of these functions as part of its Internal Audit Plan and ensure that Internal Audit is equipped to perform in accordance with appropriate professional standards for Internal Audit.
- Meet the Internal Auditor at least once a year, without Management being present, to discuss its remit, any issues arising from the Internal Auditors work and determine whether it is satisfied that the quality, experience and expertise of Internal Audit is appropriate for the Society. In addition, the Internal Auditor shall be given the right of direct access to the Chair of the Board and to the Committee.

Responsibility

External Audit

- Consider and make recommendations to the Board, to be put to members for approval at the Annual General Meeting, in relation to the appointment, reappointment and removal of the Society's External Auditor.
 - Develop and oversee the selection process for the appointment of the audit firm, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process.
 - If an External Auditor resigns, investigate the issues leading to this and decide whether any action is required.
 - Approve remuneration, including fees for both audit and non-audit services and ensure that the level of fees is appropriate to enable an effective and high quality audit to be conducted.
 - Approve Terms of Engagement, including any Engagement Letter issued at the start of each audit and the scope of the audit.
 - Assess annually the independence and objectivity of the Auditors taking into account relevant UK law, regulation, the Ethical Standard and other professional requirements and the relationship with the Auditor as a whole, including any threats to the External Auditor's independence, the safeguards applied to mitigate those threats including the provision of any non-audit services.
 - Satisfy itself that there are no relationships (such as family, employment, investment, financial or business) between the Auditor and the Society (other than in the ordinary course of business) which could adversely affect the Auditor's independence and objectivity.
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- Agree with the Board a policy on the employment of former employees of the Society's Auditor taking into account the Ethical Standard and legal requirements, then monitoring the application of this policy.
 - Monitor the Auditor's process for maintaining independence, its compliance with relevant UK law, regulation other professional requirements and the Ethical Standard including the guidance on the rotation of audit partner and staff, the level of fees paid by the Society compared with the overall fee income of the firm, office and partner and other related requirements.
 - Assess annually the qualifications, expertise and resources and independence of the Auditor and the effectiveness of the audit process, which shall include a report from the External Auditor on its own internal quality procedures.
 - Seek to ensure co-ordination of External Audit with the activities of the Internal Audit function.
 - Evaluate the risks to the quality and effectiveness of the financial reporting process in light of the External Auditor's communications with the Committee.
 - Meet regularly with the External Auditor, (including once at the planning stage before the audit and once after the audit at the reporting stage) and, at least once a year, meet with External Audit without management being present, to discuss the Auditor's remit and any issues arising from the audit.
 - Discuss with External Audit the factors that could affect audit quality and review and approve the annual Audit Plan ensuring that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team.
 - Review the findings of the audit with the External Auditor. 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.
 - Levels of errors identified during the audit.
 - The effectiveness of the audit including an assessment of the quality of the audit, the handling of key judgements by the Auditor, and the Auditor's response to questions from the Committee.
 - The Auditor's view of their interactions with senior management.
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- Review any Representation Letter(s) requested by External Audit before they are signed by management.
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- Review the Management Letter and management's response to the Auditor's findings and recommendations.
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- Develop and recommend to the Board the Society's formal policy on the provision of non-audit services by the Auditor including approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:
 - Threats to the independence and objectivity of the external Auditor and any safeguards in place.
 - The nature of the non-audit services.
 - Whether External Audit is the most suitable supplier of the non-audit service.
 - The fees for the non-audit services, both individually and in aggregate, relative to the audit fee.
 - The criteria governing compensation

9. Reporting Responsibilities

The Committee Chair shall:

- 9.1 Report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. The report shall include:
 - The significant issues that it considered in relation to the financial statements and how these were addressed.
 - Its assessment of the effectiveness of the External Audit process, the approach taken to the appointment or reappointment of the External Auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans.
 - Any other issues on which the Board has requested the Committee's opinion.
- 9.2 Make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed;
- 9.3 Produce a report on its activities to be included in the Society's Annual Report and Accounts. The report should include an explanation of how the Committee has addressed the effectiveness of the External Audit process, the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the Auditor and all other information requirements set out in the Code.
- 9.4 In compiling the reports referred to above the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Society is a going concern.
- 9.5 Annually, review and evaluate any conflict of interest of the Committee Members and report formally to the Board (as per article 39 of the Statutory Audit Directive as amended by Directive 2014/56/EU (Amending Directive).)

10. Other Matters

The Committee shall:

- 10.1 Have access to sufficient resources in order to carry out its duties, including access to the Secretariat for assistance as required.
- 10.2 Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members.
- 10.3 Give due consideration to laws and regulations, the provisions of the Code and the requirements of any other applicable rules as appropriate.
- 10.4 Oversee any investigation of activities which are within its Terms of Reference.
- 10.5 Arrange for periodic reviews of its own performance and effectiveness and, at least annually, review its constitution and Terms of Reference in order that changes are made in line with the developing risk environment and good practice and recommend any changes it considers necessary to the Board for approval.
- 10.6 Work and liaise as necessary with all other Board Committees taking into particular account of the impact of risk management and internal controls being delegated to different Committees.

11. Authority

The Committee is authorised by the Board to:

- 11.1 Seek any information it requires from any employee of the Society in order to perform its duties.
- 11.2 Obtain, at the Society's expense, outside legal or other professional advice on any matter within its Terms of Reference.
- 11.3 Request the attendance of any employee at a meeting of the Committee as and when required.

11.4 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.

12 Annual General Meeting (‘AGM’)

12.1 The Committee Chair should attend the AGM to respond to questions from members on the Committee’s activities.

13 Rapid Response Protocol

13.1 The Rapid Response Protocol seeks to facilitate decision making between meetings, whereby a minimum quorum must be present, either in person or over the phone. The Protocol is typically applied between meetings.

13.2 All decisions made under the Rapid Response Protocol are to be ratified at the following Audit Committee meeting.

Date	Version	Summary of Changes Made	Changes Made By
11/11/2022	2022V1	Annual Review and Update	Head of Risk
13/12/2022	2022V2	Annual Review by Audit Committee	Audit Committee
17/01/2023	2022V3	Board approval	Board