

## **MELTON MOWBRAY BUILDING SOCIETY GROUP (“THE GROUP”)**

### **AUDIT AND COMPLIANCE COMMITTEE**

#### **TERMS OF REFERENCE**



**Composition:** Members of the Committee shall be appointed by the Board of the Group. It will comprise 3 Non-Executive Directors. At least one member of the Committee shall have relevant recent financial experience. The Board Chair may not be a member of the Audit Committee but may attend its meetings.

The Chief Executive, Finance Director, Director of Risk & Compliance and the Internal Audit Manager shall attend meetings at the invitation of the Committee.

The Board shall appoint the Chair of the Committee. The Group Secretary will act as Secretary to the Committee.

**Meetings:** The Committee shall meet five times a year in February, March, June, September and November and as necessary in the reporting and audit cycle, and otherwise as required.

The external auditors will be invited to attend meetings of the Committee on a regular basis. Both the external and internal auditors may request a meeting of the Committee if they consider one is necessary.

**Quorum:** A quorum will be any two of the three Non-Executive directors

**Minutes:** Minutes shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board.

#### **1. OVERALL PURPOSE OF THE COMMITTEE:**

**The overall purpose of the Committee is to monitor and review:**

- **The integrity of the Group’s financial statements and policies**
- **The effectiveness of the compliance function**
- **The effectiveness of the internal audit function**
- **That there are appropriate management processes and controls embedded in the Group’s management operations together with sufficient resources to support them**
- **That the Group complies with the appropriate codes of Corporate Governance**
- **The relationship and effectiveness of the external audit function**
- **The Risk Report from the Risk Committee**
- **The quality of management information used by the Board to track the activities of the Group**

## **2. AUTHORITY**

The Committee is authorised by the Board to:

- Investigate any activity within its terms of reference;
- Seek any information that it requires from any employee of the Group and all employees are directed to co-operate with any request made by the Committee; and
- Obtain outside legal or independent professional advice and such advisors may attend meetings as necessary;
- Review and report on any other topics requested by the Board

## **3. RESPONSIBILITIES**

### **3.1 Financial reporting:**

The Committee shall monitor the integrity of the financial statements of the Group, including annual and interim reports, preliminary results' announcements and any other formal announcement relating to financial performance, reviewing significant financial reporting issues and judgments which they contain. The Chair of the Committee shall be required to attend the Board meeting at which the Annual Accounts are presented for approval. The Committee shall also review summary financial statements and any financial information contained in other public documents.

The Committee shall review and challenge where necessary:

- the consistency of, and any changes to, accounting policies both on a year on year basis and across the Group;
- the methods used to account for significant or unusual transactions where different approaches are possible;
- whether the Group has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor;
- the clarity of disclosure in the financial reports and the context in which statements are made; and
- all material information presented with the public financial statements, such as the operating and financial review and the corporate governance statement.
- the "going concern" statement required to support the Annual Accounts.

### **3.2 Reporting Responsibilities:**

A report to members on the Committee's activities is to be included within the Corporate Governance Report section of the Group's Annual Report. The Chair of the Audit Committee shall be required to attend the Group's AGM. The Group's Annual Report shall include a statement regarding any matters where the Board overrules an Audit Committee recommendation.

### **3.3 Internal Controls and Risk Management Systems:**

The Committee shall:

- review the effectiveness of the Group's internal controls and risk management processes including systems for ensuring compliance with the legal and regulatory environment within which the Group operates;
- review whether the Group has sufficient management resource and back up to ensure the effectiveness of the above;
- approve the statements to be included in the Annual Report concerning internal controls;
- review the adequacy of the processes for ensuring that the Group complies with all Policy limits;
- review the processes for detecting fraud;
- receive summary reports from the Assets and Liabilities Committee and the Executive Risk Group.

### **3.4 Regulatory and Legal Compliance:**

The Committee shall:

- monitor and review the effectiveness of the legal compliance function in the context of the Group's operations;
- review each meeting all reports to the Audit Committee on the Group from the legal compliance function.

### **3.5 Whistle-blowing:**

The Committee shall review the arrangements for employees 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.

### **3.6 Internal Audit:**

The Committee shall:

- monitor the role and effectiveness of the internal audit function;
- review and assess the annual internal audit plan;
- review each meeting all reports to the Audit Committee on the Group from the internal audit manager;
- review and monitor management's responsiveness and resulting actions to the findings and recommendations of the internal auditor; and
- meet the Internal Audit Manager at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the Internal Audit Manager shall be given the right of direct access to the Chairman of the Board and to the Committee.
- ensure that the Internal Audit function is adequately resourced and has appropriate standing in the Group
- be responsible for the appointment and dismissal of the head of internal audit.

### **3.7 External Audit:**

The Committee shall:

- consider and make recommendations to the Board, to be put to members for approval at the AGM, in relation to the appointment, re-appointment, remuneration and removal of the Group's external auditors. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- oversee the relationship with the external auditor including discussions on (but not limited to): their remuneration, whether fees for audit or non audit services and that the level of fees is appropriate to enable an adequate audit to be conducted and that fees for non-audit services do not impair the external auditor's independence or objectivity ;
- approval and sign-off of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the

provision of any non audit services and ensuring that the audit partner is rotated at appropriate intervals;

- assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
- meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- 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, any accounting and audit judgments, and levels of errors identified during the audit.
  - review any representation letter(s) requested by the external auditor before they are signed by management;
  - review the management letter and management's response and resulting actions to the auditor's findings and recommendations.
- review the engagement of the external auditors to provide non-audit services taking into account relevant ethical guidance regarding the provision of such services by the external audit firm

### **3.8 Risk**

The Audit Committee will receive input from the Group's Risk Committee covering the key risks that the Group faces and how they are being monitored and managed. The Audit Committee will use these reports to decide whether:

- any amendments are required to the Internal Audit or Compliance Monitoring Plans, or,
- recommendations for action need to be made to the Board.

### **3.9 Management Information**

The Committee will review management information used by the Board to monitor the activities of the Group to ensure that it is accurate, timely and fit for purpose. This is reviewed through the High Level Controls Internal Audit.

## **4. ANNUAL REVIEW**

The Committee shall conduct an annual review of its terms of reference and its effectiveness in carrying them out and report its findings to the Board.