



themelton  
building society

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

### AUDIT AND COMPLIANCE COMMITTEE (“THE COMMITTEE”)

#### TERMS OF REFERENCE

**Composition:** Members of the Committee will be appointed by the Board of the Group on the recommendation of the Remuneration & Nominations Committee. It will comprise at least three Non-Executive Directors. At least one member of the Committee shall have relevant and recent financial experience and at least one member will also be a member of the Risk Committee. In accordance with regulatory requirements, the Chair of the Committee will require SMF approval. The Board Chair may not be a member of this Committee but may attend its meetings.

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

The Board shall appoint the Chair of the Committee. In the absence of the Chair the remaining members shall appoint one of themselves to chair the meeting. The Group Secretary will act as Secretary to the Committee.

Members of the Committee should actively undertake training and development to keep up to date to fulfil the Committee’s role and where applicable meet their SMCR responsibilities.

**Meetings:** The Committee shall meet five times a year and otherwise as necessary in the reporting and external audit cycle. Both the external and internal audit provider may request a meeting of the Committee if they consider one is necessary.

**Quorum:** Any two of the Non-Executive Directors.

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

**Reporting:** The Chair of the Committee shall:

- be responsible for reporting to the Board and communication with other Committees; and
- be required to attend the Group’s AGM.

The Group's Annual Report shall include a statement regarding any matters where the Board overrules a recommendation of the Committee.

## **1. PURPOSE**

To monitor and review:

- The integrity of the Group's financial statements and accounting policies
- The effectiveness of the Group's internal controls and risk management systems including an assessment of the adequacy of resources
- The effectiveness of the Compliance, Internal Audit and External Audit functions
- The Group's compliance with appropriate codes of governance having due regard to evolving best practice
- The effectiveness of the Group's whistleblowing and fraud detection procedures
- The nature and quality of management information used by the Board to oversee Group activities
- The effectiveness of the Society's AML and Anti- Fraud Policy
- The adequacy of the Group's visibility on regulatory changes and preparedness for their implementation

## **2. AUTHORITY**

The Committee is authorised by the Board to:

- 2.1. Investigate any activity within its terms of reference.
- 2.2. Obtain any information that it requires from any employee of the Group;
- 2.3. Call any employee to answer questions at the Committee;
- 2.4. Obtain outside legal or independent professional advice and such advisors may attend meetings as necessary; and
- 2.5. Review and report on any other topics requested by the Board.

## **3. RESPONSIBILITIES**

### **3.1 Financial Reporting**

The Committee shall:

- 3.1.1. monitor the integrity of the financial statements of the Group, 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:

- 3.1.2. the approval and consistency of accounting policies both on a year on year basis and across the Group.
- 3.1.3. the approach used to account for significant or unusual transactions.
- 3.1.4. whether the Group has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor.
- 3.1.5. the clarity of disclosure in the financial reports and the context in which statements are made.
- 3.1.6. all material information presented in 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.
- 3.1.7. the Society’s Pillar 3 Disclosures Document prior to recommendation to Board for approval (Risk Committee will provide the Committee with its recommendation regarding the technical aspects of the disclosure); and
- 3.1.8. the financial statements of material subsidiary companies of the Group.

### **3.2 Internal Controls and Risk Management Systems**

The Committee shall:

- 3.2.1. review the adequacy and effectiveness of the Group’s internal controls and risk management systems including systems for ensuring compliance with the legal and regulatory requirements.
- 3.2.2. review whether the Group has sufficient resources to meet the above requirements.
- 3.2.3. review the adequacy of the processes for ensuring that the Group complies with all Policy limits.
- 3.2.4. receive and consider summary reports from the Risk, Assets and Liabilities and Executive Committees covering the key risks faced by the Group and how they are being monitored and managed. The Audit Committee will use these reports to decide whether any amendments are required to the Combined Assurance Plan or make other recommendations for action to the Board.

### **3.3 Regulatory and Legal Compliance**

The Committee shall:

- 3.3.1. annually review and approve the annual Combined Assurance Plan.

- 3.3.2. monitor and review the effectiveness of the Compliance function in the context of the Group's operations.
- 3.3.3. review reports from the Compliance function.
- 3.3.4. monitor and review the Group's compliance with appropriate Corporate Governance guidance.
- 3.3.5. review and approve Building Societies Act Section 68 and 69 reports from the Society Secretary.
- 3.3.6. review the Society's SCV reporting on an annual basis and subsequently report to the Board.
- 3.3.7. review assurance activity relating to the High Level Standards on an annual basis.
- 3.3.8. monitor Compliance action points to ensure these are implemented.

### **3.4 Internal Audit**

The Committee shall:

- 3.4.1. be responsible for considering whether the internal audit function should be conducted in house or by an external provider.
- 3.4.2. if the latter, be responsible for reviewing potential firms and for the appointment and dismissal of the provider and for reviewing and recommending the internal audit fee to the Board.
- 3.4.3. annually review and approve the internal audit charter.
- 3.4.4. oversee the internal audit strategy, including reviewing and approving the annual internal audit plan.
- 3.4.5. monitor the role and effectiveness of the internal audit provider.
- 3.4.6. ensure internal audit has adequate resources and access to information to enable it to perform its function effectively and in accordance with the relevant professional standard.
- 3.4.7. ensure internal audit has adequate standing and is free from management or other restrictions.
- 3.4.8. review all reports to the Committee from internal audit.
- 3.4.9. review and monitor management's responsiveness to internal audit findings, including the monitoring of internal audit action points to ensure they are implemented, or otherwise appropriately disposed of.
- 3.4.10. meet the internal audit provider 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 provider shall be given the right of direct access to the Chairman of the Board and to the Committee.

### **3.5 External Audit**

The Committee shall:

- 3.5.1. annually 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.
- 3.5.2. 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.
- 3.5.3. oversee the relationship with the external auditor including discussions on fees for audit or non-audit services, 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.
- 3.5.4. approve and sign-off terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit.
- 3.5.5. assess annually independence and objectivity, taking into account relevant professional and regulatory requirements and the relationship with the auditor, including audit partner rotation at appropriate intervals.
- 3.5.6. annually assess qualifications, expertise, resources and effectiveness of the audit process which shall include a report from the external auditor on their own quality procedures.
- 3.5.7. meet regularly with the external auditor, including once at the planning stage before the audit, once after the audit at the reporting stage and at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- 3.5.8. annually review and approve the annual audit plan, consistent with the scope of the audit engagement.
- 3.5.9. annually review the findings of the audit with the external auditor. This shall include the following:
  - a discussion of any major issues which arose during the audit, any accounting / audit judgments, and levels of errors identified during the audit
  - review of representation letter(s) requested by the external auditor before they are signed by management
  - review of the management letter, management's response and resulting actions to the auditor's findings and recommendations.

### **3.6 Management Information**

The Committee will review management information used by the Board to ensure that it is accurate, timely and fit for purpose.

### **3.7 Whistleblowing and Fraud**

The Committee shall:

- 3.7.1. annually 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; and

3.7.2. annually review the Group's procedures for detecting and managing fraud.

### **3.8 Policies and Processes**

The Committee is authorised by the Board to approve and at least annually review:

- Detailed Provisioning Methodology
- Accounting Policies
- Financial Crime Policy
- Data Protection Policy
- Cold Calling Policy
- Conflicts of Interest Policy
- Whistleblowing Policy
- Retention of Data Policy
- Business Continuity Plan
- External Audit Policy
- Provision of Non Audit Services by External Auditors Policy
- Data Security Policy
- IT End User Policy

## **4. COMMUNICATION**

- 4.1. The Secretary will circulate the ACC Committee agenda and papers at least one week before the meeting.
- 4.2. Formal Minutes, approved by the Committee Chairman, shall be submitted to the Board following each Committee.
- 4.3. The Committee holds a key role in liaising with other committees. After each Committee, a summary report will be prepared for the Board detailing key decisions taken and required follow-up actions.
- 4.4. The Chairman will also provide a report on the activities of the Committee at each subsequent Board Meeting.

## **5. 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.

## 6. INDEPENDENCE AND CONFLICT

It is important that the independence of the Committee is maintained and that any conflicts of interest are avoided. There is an opportunity to raise and discuss any potential conflict of interest at the start of each meeting and any potential conflicts are recorded in the minutes'

### Document History

<u>Date</u>	<u>Activity</u>	<u>Owner</u>
Jan 2020	Review	KOR
Feb 2020	Annual review to incorporate BER input	MJR/KM

**AUDIT AND COMPLIANCE COMMITTEE**

**TERMS OF REFERENCE**

**POLICIES AND PROCESSES FOR WHICH THE COMMITTEE HAS DELEGATED AUTHORITY TO APPROVE**

**1 Processes:**

- 1.1 Annual Report and Accounts - Subsidiary Companies
- 1.2 Member Communication of Year End Result
- 1.3 Detailed Provisioning Methodology
- 1.4 Annual External Audit Plan
- 1.5 Annual Internal Audit Plan
- 1.6 Annual Compliance Plan
- 1.7 Business Continuity Plan
- 1.8 Internal Audit Charter/Terms of Reference

**2 Policies:**

- 2.1 Accounting Policies
- 2.2 Financial Crime Policy
- 2.3 Data Protection Policy
- 2.4 Cold Calling Policy
- 2.5 Conflicts of Interest Policy
- 2.6 Whistleblowing Policy
- 2.7 Retention of Documents Policy
- 2.8 External Audit Policy
- 2.9 Provision of Non Audit Services by External Auditors Policy

**AUDIT AND COMPLIANCE COMMITTEE**

**TERMS OF REFERENCE**

**POLICIES AND PROCESSES WHICH THE COMMITTEE HAS DELEGATED AUTHORITY TO REVIEW AND MAKE RECOMMENDATIONS TO THE BOARD**

**1 Processes:**

- 1.1 Group Annual Report and Accounts including Corporate Governance Statements
- 1.2 Management Representation Letters to External Auditor
- 1.3 Pillar 3 Disclosures
- 1.4 Section 68 and 69 Reports
- 1.5 The financial statements of material subsidiaries of the Group
- 1.6 SCV Reporting
- 1.7 CASS Reporting
- 1.8 SMR Annual Compliance Review

**2 Policies:**

N/A