



the**melton**
building society

Terms of Reference Audit and Compliance Committee

Document Owner – Secretariat
Document Approver – Board
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Purpose

The Audit and Compliance Committee (the “Committee”) is a committee of the Board of Melton Mowbray Building Society, from which it derives its authority. Its role is to monitor and review:

- The integrity of the Group’s financial statements and accounting policies
- The adequacy and 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 appropriateness and effectiveness of the Group’s fraud detection procedures
- The effectiveness of the Society’s AML and Anti-Fraud Policies
- The adequacy of the Group’s visibility on regulatory changes and preparedness for their implementation

Composition, Frequency Quorum and Proceedings

Composition: All members of the Committee shall be Non-Executive Directors.

The Committee shall comprise at least three independent Non-Executive Directors.

Appointments to the Committee are made by the Board on the recommendation of the Remuneration & Nominations Committee. At least one member of the Committee shall have relevant recent financial experience and at least one member will also be a member of the Risk Committee.

The Chair of the Board may not be a member of this Committee.

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

Chair: The Board will appoint the Committee Chair who will be an independent Non-Executive Director. In the absence of the Chair, or an appointed deputy, the remaining members present shall elect one of their number to chair the meeting.

The Chair of the Committee is an SMF11 appointment.

Secretary: The Secretary of the Committee will be the Secretary of the Society, or his or her Deputy. The Secretary will arrange to circulate to the Committee members and attendees the agenda and papers in a timely manner prior to the meeting.

Attendees: Only members of the Committee have the right to attend Committee meetings, however, other individuals, such as the Chief Executive Officer, Chief Finance Officer, Chief Risk Officer, Internal Audit and External Audit may be invited to attend for all or part of the meeting, as and when appropriate.

Frequency: The Committee will normally meet five times a year at appropriate times and otherwise as required 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.

Meetings of the Committee will be called by the Secretary of the Committee at the request of any of its members.

Quorum: The quorum for the transaction of business shall be

- Two members if the number of members who constitute the Committee is three.
- Three members if the number of members who constitute the Committee is four or more.

A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of its authorities, powers and discretions.

In the event of equal votes the Chair of the Committee shall have a second or casting vote.

Minutes: The Secretary of the Committee will minute the proceedings and resolutions of all meetings of the Committee and once agreed by the Chair of the Committee arrange for the Minutes to be circulated promptly to all members of the Committee and Board if appropriate.

Written: Written resolutions must be undertaken in accordance with the requirements set out in the

Resolutions: Society's Rules with written consent required from all Committee members for approval.

Mandate: The Committee is authorised to:

- a) Investigate any activity within its terms of reference or any activity brought to the attention of the Committee to ensure the safety and soundness of the Society.
- b) Seek any information it requires from any employee of the Society in order to perform its duties.
- c) Obtain, at the Society's expense, outside legal or other professional advice on any matter within its terms of reference.
- d) Call any employee to attend a meeting of the Committee as and when required.
- e) Review and report on any other topics requested by the Board.
- f) Have the right to publish in the Society's Annual Report details of any issues that cannot be resolved between this Committee and the Board.

Independence: 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 conflicts of interest at the start of each meeting and any potential conflicts are recorded in the minutes.

Responsibilities

Financial Reporting

The Committee shall:

1. Monitor the integrity of the financial statements of the Group, reviewing significant financial reporting issues and judgments which they contain and all related information presented with the financial statements. 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.

2. The Committee will report to the Board on whether it considers the information in 1. above to present a true and fair balanced and understandable assessment of the Group's position and prospects. 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.

The Committee shall review and challenge where necessary:

1. The approval, appropriateness, application and consistency of accounting policies both on a year on year basis and across the Group.
2. The methods used to account for significant or unusual transactions where different approaches are possible.
3. Whether the Group has followed appropriate accounting standards and made appropriate estimates and judgments, with input provided by the external auditor.
4. The clarity and completeness of disclosure in the financial reports and the context in which statements are made.
5. All material information presented in or with public financial statements, such as the operating and financial review and the corporate governance statement.
6. The appropriateness of the going concern and viability statement to be made by the Board.
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
8. The financial statements of material subsidiary companies of the Group.

Internal Controls and Risk Management Systems

The Committee shall:

1. Review the adequacy and effectiveness of the Group's internal controls and risk management systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems including systems for ensuring compliance with the legal and regulatory requirements.
2. Review whether the Group has sufficient resources to meet the above requirements.
3. Review the adequacy of the processes for ensuring that the Group complies with all Policy limits.

Regulatory and Legal Compliance

The Committee shall:

1. Annually review and approve the annual Combined Assurance Plan.
2. Monitor and review the effectiveness of the Compliance function in the context of the Group's operations.
3. Review reports from the Compliance function including compliance monitoring reports.
4. Monitor and review the Group's compliance with appropriate Corporate Governance standards.
5. Review and approve Building Societies Act Section 68 and 69 reports from the Company Secretary.

6. Review the Society's SCV reporting on an annual basis and subsequently report to the Board.
7. Review assurance activity relating to the High Level Standards on an annual basis.
8. Monitor Compliance action points to ensure these are implemented.

Internal Audit

The Committee shall:

1. Be responsible for considering whether the internal audit function should be conducted in house or by an external provider. If the latter, be responsible for reviewing potential firms and for the appointment and dismissal of the provider and for reviewing and agreeing the internal audit fee.
2. Monitor and review the role, effectiveness and performance of the internal audit provider.
3. Annually review and approve the internal audit charter.
4. Review and approve the internal audit plan. The Committee will ensure that the plan is aligned to the Group's key strategic objectives and risks. The Committee will approve any material changes to the plan as well as approving the frequency and method of audit cycle coverage and appropriateness of areas excluded from the plan.
5. 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.
6. Ensure internal audit has adequate standing and is free from management or other restrictions.
7. Review all reports to the Committee from internal audit.
8. 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.
9. 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 Chair of the Board and to the Committee.
10. Consider whether an independent, third party review of internal audit effectiveness and processes at least every five years is appropriate.

External Audit

The Committee shall:

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. The Committee will oversee the selection process for a new auditor and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required.
2. Oversee the relationship with the external auditor including (but not limited to):
 - whether fees for audit or non-audit services and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;

- approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - that fees for non-audit services do not impair the external auditor's independence or objectivity.
 - assessing annually their independence and objectivity taking into account relevant UK law, professional and regulatory requirements and the relationship with the auditor as a whole, including any threats to the auditor's independence and safeguards applied to mitigate those, including the provision of any non-audit services;
 - satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Group (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
 - monitoring the auditor's compliance with relevant ethical and professional guidance and regulatory requirements including the rotation of audit partner and senior staff, the level of audit fees and non audit fees paid by the Group;
 - assessing 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 their own internal quality procedures;
 - evaluating the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee.
3. 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 will also meet the external auditor at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit.
 4. Discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, including planned levels of materiality and resourcing having regard to the seniority, expertise and experience of the audit team.
 5. Review the findings of the audit with the external auditor. This will 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;
 - any accounting and audit judgements;
 - levels of errors identified during the audit;
 - the auditor's view of their interactions with senior management;
 - 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.
 6. Review of representation letter(s) requested by the external auditor before they are signed by management.
 7. Review of the management letter, management's response and resulting actions to the auditor's findings and recommendations.
 8. Ensure that, at least once every ten years, the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services of the incumbent auditor

with those of other firms. The Committee will oversee the selection process arising out of the tender.

9. Develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter, including prior 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.

Fraud, Bribery and Corruption

The Committee shall annually review the appropriateness and effectiveness of, and maintain ongoing oversight of specific issues relating to the Group's procedures for detecting and managing fraud, bribery and corruption.

Policies and Processes

The Committee is authorised by the Board to approve and at least annually review the Policies and Processes set out and contained in Appendix 1A and to review those processes and make recommendations to the Board set out and contained in Appendix 1B.

Reporting responsibilities

The Committee shall:

- 1 Report formally to the Board through the Committee Chair on its proceedings after each meeting in respect of all matters within its duties and responsibilities and on other issues on which the Board has requested the Committee's opinion.
- 2 Make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 3 Report to the Board on how it has discharged its responsibilities which will be included in the Society's Annual Report. This report will specifically cover: significant issues that the Committee considered in relation to the financial statements and how these issues were addressed; the matters discussed in relation to the systems of internal controls; an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment of or reappointment of the external auditor; information on the length of tenure of the current audit firm and when a tender was last conducted; and if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded.
- 4 The Committee shall compile a report on its activities to be included in the Society's Annual Report. The report should describe the work of the Committee, including significant issues that the Committee considered in relation to the financial statements and how these issues were addressed; an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment of or reappointment of the external auditor; information on the

length of tenure of the current audit firm and when a tender was last conducted and advance notice of any retendering plans; and if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded having regard to matters communicated to it by the auditor and all other information requirements set out in the Code.

- 5 Ensure that its Chair will attend the Annual General Meeting to answer member questions on the Committee's activities.
- 6 Shall report to the Board on compliance with internal policies and progress in remedying any material deficiencies related to climate risk policies.
- 7 Shall conduct an annual review of its terms of reference and its effectiveness in carrying them out and report its findings to the Board.

General Matters

The Committee will:

1. Give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and any other applicable rules, as appropriate.
2. Review management information used by the Board to ensure that it is accurate, timely and fit for purpose.
3. Annually arrange for reviews of its own performance and, at least annually, review its terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.
4. Make available its terms of reference explaining clearly its role and the authority delegated to it by the Board.
5. Have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required.
6. Ensure that all new members receive an induction tailored to their requirements on joining the Committee and that appropriate training is provided on an ongoing basis for all members.
7. Oversee any investigation of activities which are within its terms of reference.
8. Work and liaise as necessary with other Board committees, ensuring the interaction between committees and with the Board is reviewed regularly.

Document history *(log of document changes)*

Appendix 1

A Policies and processes that the Committee has authority to approve

Processes:

1. Annual Report and Accounts - Subsidiary Companies
2. Annual External Audit Plan
3. Annual Internal Audit Plan
4. Combined Assurance Plan (includes the Annual Compliance Plan)
5. Detailed Provisioning Methodology
6. Internal Audit Charter/Terms of Reference
7. Member Communication of Year End Results
8. Section 68 and 69 Reports

Policies:

1. Accounting Policies
2. Data Protection Policy
3. External Audit Policy
4. Financial Crime Policy
5. Provision of Non Audit Services by External Auditors Policy
6. Retention of Data Policy
7. Vulnerable Customers Policy

B Processes and Policies that the Committee has authority to review and make recommendations to the Board

Processes:

1. Annual Report and Accounts (Society) including Corporate Governance Statements
2. CASS Reporting
3. Management Representation Letters to External Auditor
4. Pillar 3 Disclosures Section 68 and 69 Reports
5. SCV Reporting