

# Audit & Compliance Committee Terms of Reference

## Document Control

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## 1. Purpose

The Harpenden Building Society's Board Audit & Compliance Committee (the Committee) is a Committee of the Board of Directors, responsible for:

- reviewing and monitoring the integrity of the Harpenden's financial statements, internal and external audit functions, and internal control systems in line with the Board's role of ensuring best practice in corporate governance and reporting to the Board of the Harpenden; and
- reviewing and monitoring the adequacy and effectiveness of the Society's compliance function, including the outsourcing arrangement with RSM.

## 2. Membership

Members of the Committee are appointed by the Board on the recommendation of the Remuneration & Nominations Committee, in consultation with the Audit Committee Chair and shall comprise at least three members all of whom shall be non-executive directors. The Chair of the Committee shall be appointed by the Board from amongst the Non-Executive Directors but shall not be the Chair of the Board and who is also not a member.

At least one member of the Committee, ideally the Chair, shall have significant, recent and relevant financial experience.

At least one member of the Committee shall also be a member of the Risk Committee, and where possible, one member of the Remuneration & Nominations Committee.

Role	Status	Deputy
Non-Executive Director, Chair	Member	Non-Executive Director
Non-Executive Director, Vice-Chair	Member	Not applicable
Non-Executive Director	Member	Not applicable
Chief Executive	Non-voting attendee	Not applicable
Finance Director	Non-voting attendee	Not applicable
Chief Risk Officer	Non-voting attendee	Not applicable
Representative from Compliance	Non-voting attendee	Not applicable
Representative from Internal Audit	Non-voting attendee	Not applicable
Representative from External Audit	Non-voting attendee	Not applicable
Society Secretary	Secretary	Not applicable

Only members of the Committee have the right to attend meetings. However, other individuals, such as the Chief Executive, the Finance Director, the Chief Risk Officer other members of the Senior Management Team, external advisors and external auditors may be invited to attend for all or any part of any meeting, as and when appropriate and necessary.

All new members of the Committee will be informed of their responsibilities, the role of the Committee, the Committee Terms of Reference, Society Strategy and the main business and financial dynamics and risks. Members will be provided with support and training where deemed necessary by the Chair, or person appointed by the Chair to ensure they are able to discharge their responsibilities effectively.

All members of the Audit & Compliance Committee will be provided with ongoing training including an understanding of the principles of and developments in corporate reporting and regulation.

In the absence of the Committee Chair the appointed deputy shall chair the meeting.

### **3. Quorum**

The quorum will be reviewed on an annual basis and is currently two members.

Quorum requirements should be reviewed annually to reflect any changes in Board membership or roles and responsibilities. A meeting can only be deemed quorate if all members have been invited to attend.

### **4. Authority**

The Committee is authorised by the Board to investigate any activity within its Terms of Reference.

The Committee requires the cooperation of every member of the Society's Executive and staff, as appropriate, in helping it to discharge its duties. The Board Audit Committee is authorised by the Board to take such independent external legal, accounting or other professional advice and training as it considers necessary, at the Society's expense.

The Committee is authorised to call on any member of staff in order to perform its duties.

The Committee has the right to publish in the Society's Annual Report & Accounts details of any issues that cannot be resolved between the Committee and the Board.

The Terms of Reference of the Committee and any material amendments must be approved by the Board.

#### **4.1. Exceptions**

- The Committee will review and approve exceptions to policy under its authority as prescribed by the specific policy in question (see section 5 below). Policy dispensations are submitted in writing to the Committee for approval, stating:
- The relevant policy or specific requirement(s) for which the dispensation is being requested
- What is being done instead of following the policy (i.e. the variation)
- An impact assessment of the dispensation
- The requested time period for the dispensation Policy breaches or agreed exceptions are to be reported to the Committee through the relevant management information report as prescribed by the policy in question.

#### **4.2. Voting**

Each member of the Committee is entitled to a single vote, which can be cast either in person at the meeting, or by email prior to the meeting addressed to the Chair of the Committee. Approval requires a simple majority. In the event of an even split vote, the Chair or acting deputy has the option to exercise a casting vote. Committee members may not delegate their vote to a deputy, and invited guests attending the committee are not entitled to vote.

## **5. Approvals and Responsibilities**

### **5.1 Approvals**

The following documents are submitted to the Committee for approval at the prescribed frequency.

<b>Approvals</b>	<b>Details</b>
<b>Annual Internal Audit Plan</b>	Approve the Annual Internal Audit Plan and Internal Audit Budget.
<b>Engagement of External Auditors for non-audit services</b>	<p>Approve a policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and the employment of the external auditors former employees.</p> <p>To monitor compliance with the policy of engagement and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.</p>

Approvals	Details
<b>Accounting Standards</b>	Approve significant changes in the Society's accounting policies and judgemental accounting assumptions
<b>Internal Audit Operations and Effectiveness</b>	To approve the risk assessment processes performed in scoping internal audit activity each quarter, and on an annual basis the Internal Audit Plan for the year.
<b>External Audit Operations and Effectiveness</b>	<p>To approve the terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit</p> <p>If an external auditor resigns, investigate the issues leading to this and decide whether any action is required.</p>
<b>Annual Compliance Plan</b>	Approve the Annual Compliance Plan.

### Recommendations for Approval

The following documents are for review and recommendation to the Board for approval.

Recommendations for Approvals	Details
<b>Compliance with Accounting Standards</b>	<p>To review the Annual Report and Accounts for compliance with the applicable accounting standards before their submission to the Board for approval. Where requested by the Board, the Audit Committee should provide advice on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Society's position and performance, business model and strategy.</p> <p>Review and recommend to the Board for approval the Summary Financial Statements and Pillar 3 disclosure document.</p>
<b>External Audit Operations and Effectiveness</b>	<p>To make recommendations to the Board, for it to put to the members for their approval in general meeting, in relation to the appointment, re-appointment or removal of the external auditors and to approve the remuneration and terms of engagement of the external auditor.</p> <p>The Society should put the external audit contract out to tender at least every ten years. If the Board does not accept the Audit Committee's recommendation, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the Audit Committee explaining the recommendation and should set out reasons why the Board has taken a different position.</p>

Recommendations for Approvals	Details
<b>Compliance Services</b>	To make recommendations to the Board for the outsourcing or insourcing of compliance services.
<b>Other</b>	To review annually the Committee's Terms of Reference prior to submission to the Board of Directors for approval.

## 5.2 Responsibilities

Responsibility	Details
<b>Compliance with Accounting Standards</b>	To review the Society's compliance with the applicable accounting standards.
<b>Internal Controls</b>	<p>To keep under review the Society's internal financial controls systems that identify, assess, manage and monitor financial risks and other internal control and risk management systems;</p> <p>To review and approve the statements to be included in the annual report concerning internal control, risk management and the going concern/viability statement.</p>
<b>Internal Audit &amp; Effectiveness</b>	<p>To review progress against the Internal Audit Plan during the audit cycle and approve proposed changes to the Plan</p> <p>Review Internal Audit Report tracking progress against the Annual Internal Audit Plan. Consider the findings of each audit report and review progress in implementation of agreed actions.</p> <p>To annually review the Internal Audit Charter.</p> <p>To conduct an annual review of the effectiveness of Internal Audit in the overall context of the Society's risk management framework, including consideration of the independence of internal audit.</p> <p>To ensure that the Internal Audit is subject to an independent quality assurance review at least once every five years. This assessment should also include the work performed, the nature and timing of reports, the adequacy of resources, its independence and compliance with Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors.</p> <p>To work with the Executive Directors to promote the role of Internal Audit within the Society and emphasise the importance of a robust risk management, governance and control framework.</p>

Responsibility	Details
<b>Internal Audit &amp; Effectiveness</b>	<p>To ensure Internal Audit has direct access to the Board Chair and to the Committee Chairman, and is accountable to the Committee.</p> <p>The Committee shall meet the internal auditor at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit;</p>
<b>External Audit Operations and Effectiveness</b>	<p>Annually, to consider the scope and planning of the external audit including a review of the auditors' engagement letter.</p> <p>To review the nature and extent of cooperation between the external auditors and the Society's Internal Auditors.</p> <p>To review the findings and recommendations of the external auditors and the Society's response.</p> <p>To review the audit representation letter before acceptance by the Board.</p> <p>Annually to discuss with the external auditors their policies and processes with regard to relevant ethical and other regulatory requirements concerning the conduct of their work.</p> <p>To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements.</p> <p>At the end of the annual audit cycle, to assess the effectiveness of the external audit process and to confirm that no constraints have been encountered by them regarding the nature and extent of their audit work for any reason.</p> <p>The Committee shall 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.</p> <p>Satisfy itself that there are no relationships between the auditor and the Society which could adversely affect the auditor's independence and objectivity;</p> <p>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 and monitor the application of this policy.</p>



Responsibility	Details
<b>External Audit Appointment</b>	Oversee the selection process for a new external auditor ensuring that all tendering firms have such access as is necessary to information and individuals during the process.
<b>Financial Reporting</b>	<p>Where requested by the Board, the Committee should review the content of the Annual Report and Accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for Members to assess the Society's performance, business model and strategy.</p> <p>The Committee shall review and challenge where necessary:</p> <ul style="list-style-type: none"> <li>• the application of significant accounting policies and any changes to them.</li> <li>• the methods used to account for significant or unusual transactions where different approaches are possible</li> <li>• whether the Society has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor</li> <li>• the clarity and completeness of disclosure in the Society's financial reports and the context in which statements are made; and</li> <li>• all material information presented with the financial statements such as the business review/operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).</li> </ul>
<b>Compliance</b>	<p>The Committee shall:</p> <ul style="list-style-type: none"> <li>• monitor and keep under review the adequacy and effectiveness of the Society's services;</li> <li>• consider and approve the remit of the compliance function and ensure it is adequately resourced. The committee shall also ensure the function has adequate standing, free from management or other restrictions and appropriate access to information to enable it to perform effectively;</li> <li>• monitor and review the effectiveness of the operational compliance support outsourcing arrangement with RSM Risk Assurance Services LLP ("the service provider") including assessing annually the qualifications, expertise and resources of the service provider and the effectiveness of the service provided;</li> <li>• review and monitor management's responsiveness to addressing any deficiencies identified by the Society's compliance monitoring activities; and</li> <li>• if the service provider resigns investigate the issues leading to this and decide whether any action is required.</li> <li>• Review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Society's compliance function.</li> </ul>

Responsibility	Details
<b>Whistleblowing and Fraud</b>	<ul style="list-style-type: none"> <li>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 such as health &amp; safety, environmental risk/damage, miscarriage of justice, breaches of company law and covering up wrong doing.. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action ;</li> <li>review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the Society's anti-money laundering systems and controls;</li> <li>review the Society's procedures for detecting fraud;</li> <li>review the Society's systems and controls for the prevention of bribery and receive reports on non-compliance; and</li> <li>review the Society's systems and controls for data protection.</li> </ul>
<b>Other</b>	To consider its own performance, noting its conclusions in a report submitted to the Remuneration & Nominations Committee.

## 6. Meeting Frequency

Meetings shall be held at least four times a year. Additional meetings may be convened following consultation with the Chair and provided that the quorate requirements are applied.

Meetings of the Committee are scheduled annually in advance by the Society Secretary, in conjunction with the Committee Chair.

Outside of the formal meeting programme the Committee Chair, and to a lesser extent the other Committee members will maintain a dialogue with key individuals involved in the Society's governance including the Board Chair, the Chief Executive, the Finance Director, the External and Internal Lead partners, the Chief Risk Officer and external compliance support.

## 7. Secretariat

The Society Secretary, or his or her nominee, will act as secretary for the Committee and be responsible for maintaining the meeting minutes. The Secretary will ensure that all follow-up actions are appropriately assigned and monitored.

The Secretary will ensure that all items included within the Terms of Reference are covered as standard agenda items in Committee meetings. The Secretary in conjunction with the Chief Risk Officer and the Committee Chair will draw up an agenda which shall be circulated prior to each meeting to each member of the Committee and to any other attendees.

The Secretary will make a best endeavour to collate and circulate relevant reports to the Committee members and other attendees 5 days before the date of the meeting. Papers may be distributed electronically as agreed by the Society.

An effectiveness review of the Committee will be performed annually, including a review of meeting content, Terms of Reference and composition. Changes or improvements to the effectiveness of the Committee will be recommended to the Board for implementation.

## **8. Minutes & Reports**

Committee decisions and discussions will be evidenced by minutes maintained by the Committee secretary and after approval by the Chair will be circulated to the Committee members and nominated attendees within 5 days of the meeting time to allow completion of actions. The minutes will include recording the names of those present and in attendance.

In addition a summary report, including significant matters discussed, areas for action or improvement, any other issues on which the Board has requested the Committee's opinion and copies of minutes will be presented by the Chair of the Committee or their deputy to the Board at its next meeting.

## **9. Other Matters**

The Committee has access to sufficient resources, including the Society Secretary, to carry out its duties including authority from the Board to obtain, at the Society's expenses, legal or professional advice on any matters within its terms of reference.

The Committee gives due consideration to laws and regulations, Codes of Practice and any other Rules, as appropriate.

The Committee Chair should attend the Annual General Meeting to answer members' questions on the Committee's activities.

## **10. Document Version History**

Date	Version	Author	Comments
06.06.2019	V0.1	Roy Badcock, Society Secretary	New Terms of Reference format developed for Society
08.08.2019	V0.2	Roy Badcock, Society Secretary	Updates included from Peter Baynham, Paul Smith, The Financial Reporting Council and Institute of Chartered Secretaries and Administrators.
09.08.2019	V0.3	Roy Badcock, Society Secretary	Updates shown in v0.2 accepted into document and reformatted.