

# Audit Committee Terms of Reference – November 2023



1. MEMBERSHIP	
1.1	The Audit Committee is a sub-Committee of Furness Building Society's Board of Directors.
1.2	All members of the Committee shall be independent Non-Executive Directors; at least one of whom shall have recent and relevant financial experience.
1.3	The Committee shall comprise at least three members. Membership shall include at least one member of the Board Risk Committee. Members of the Committee shall be appointed by the Board, usually on the recommendation of the Nomination Committee in consultation with the Chair of the Audit Committee (SMF11).
1.4	Only members of the Committee have the right to attend Committee meetings. However, the Finance Director, Chief Risk and Compliance Officer are expected to attend all meetings. Other occasional invitees are asked to attend as and when appropriate and necessary.
1.5	A representative of the External and Internal Auditors is normally expected to attend meetings of the Committee on a regular basis.  External Auditor representation is required at meetings where the year-end accounts or systems are to be discussed.
1.6	The membership of the Committee is reviewed annually by the Society's Board of Directors.
1.7	The Board shall appoint the Committee Chair who shall be an independent Non-Executive Director. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.
2. SECRETARY	
2.1	The Company Secretary or nominee shall act as the Secretary of the Committee.
3. QUORUM	
3.1	The quorum necessary for the transaction of business shall be two 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.
<b>4. FREQUENCY OF MEETINGS</b>	
4.1	The Committee shall meet at least four times a year at appropriate times in the reporting and audit cycle and otherwise as required.
<b>5. NOTICE OF MEETINGS</b>	
5.1	Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members, the Society Board, or at the request of the External or Internal Auditor if they consider it necessary.
5.2	A notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed and supporting papers shall be forwarded to each member of the Committee and any other person required to attend, generally no later than five working days before the date of the meeting.
<b>6. MINUTES OF MEETINGS</b>	
6.1	The Secretary shall minute the proceedings, decisions and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
6.2	Draft minutes of Committee meetings shall be circulated to all members of the Committee. Approved minutes will be shared with the Board Risk Committee and Board of Directors at the next meeting unless it would be inappropriate to do so.
<b>7. ANNUAL GENERAL MEETING</b>	
7.1	The Committee Chair should attend the Annual General Meeting to answer members' questions on the Committee's activities however, all Committee members are expected to attend the Annual General Meeting as per the Board of Director's Terms of Reference.
<b>8. COMMUNICATION WITH MEMBERS</b>	
<p>These Terms of Reference shall be made available to the Society's members. A separate section in the Annual Report &amp; Accounts will describe the work of the Committee in discharging its responsibilities.</p> <p>The section shall include:</p> <ul style="list-style-type: none"> <li>• A summary of the role of the Committee</li> <li>• The members of the Committee during the period</li> <li>• The number of Committee meetings</li> <li>• A report on the way the Committee has discharged its responsibilities and;</li> </ul>	

- Explanations on how the Committee reached its recommendation to the Board on the appointment, reappointment or removal of the External Auditor, terms of the External Auditor and the independence and objectivity of the External Auditor, including the provision of non-audit services.

## 9. DUITES AND RESPONSIBILITIES

The Committee shall carry out the duties below for the Society, subsidiary undertakings and Group as a whole as appropriate:

9.1	<b>FINANCIAL REPORTING</b>
9.1.1	The Committee shall monitor the integrity of the financial statements of the Group, including any formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain prior to approval by the Board.
9.1.2	In particular the Committee will challenge and make appropriate recommendations to the Board in relation to:
9.1.3	the consistency of, and any changes to, accounting policies both on a year-on-year basis and across the Society/Group;
9.1.4	the methods used to account for significant or unusual transactions where different approaches are possible;
9.1.5	whether the Group has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the External Auditor;
9.1.6	the clarity of disclosure in the Society's financial reports and the context in which statements are made; and
9.1.7	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 Audit and Risk management).
9.1.8	The Committee shall advise the Board, if requested, on whether it believes the Annual Report & Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy.
9.2	<b>INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS</b>
9.2.1	The Committee shall keep under review the Group's internal control system and risk management systems, covering all material controls, including financial, operational and compliance controls.

9.2.2	The Committee shall review and recommend to the Board the statements to be included in the Annual Report & Accounts concerning internal controls and risk management.
9.2.3	The Committee shall approve the Mortgage Loss Provisioning Policy.
9.2.4	The Committee shall approve the Outsourcing Policy.
9.3	<b>WHISTLEBLOWING, FRAUD AND BRIBERY</b>
9.3.1	Review the adequacy and security of the Group'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.
9.3.2	Approve the Group's Whistleblowing Policy.
9.3.3	Review the Group's procedures for detecting fraud, including tax evasion.
9.3.4	Approve the Group's Fraud Policy.
9.3.5	Review the Society's systems and controls for the prevention of bribery and receive reports on non-compliance in the form of an annual report from the Chief Risk and Compliance Officer.
9.3.6	Review regular reports (including an annual report) from the Money Laundering Reporting Officer (MLRO) and the adequacy and effectiveness of the Society's anti-money laundering systems and controls.
9.3.7	Approve the Group's Anti Money Laundering Policy.
9.3.8	To annually receive details of overdrawn accounts written off within their mandates by Management during the year, to receive details of any accounts reporting an overdrawn balance of more than £1,500 and to recommend a suitable course of action to the Board in respect of these accounts.
9.4	<b>RISK &amp; COMPLIANCE</b>
9.4.1	Review regular reports from the Chief Risk & Compliance Officer and Head of Compliance and keep under review the adequacy and effectiveness of the Society's Risk & Compliance function.
9.4.2	Ensure that the Chief Risk & Compliance Officer has the right of direct access to the Chair of the Board and to the Committee.
9.4.3	To receive reports on complaints received by the Group (unless considered by the Board).
9.5	<b>INTERNAL AUDIT</b>

Monitor and review the effectiveness of the Society's Internal Audit arrangements including:	
9.5.1	An assessment of the scope of work performed by Internal Audit.
9.5.2	The nature and timing of Internal Audit reports.
9.5.3	Adequacy of resources to achieve the agreed objectives of the function.
9.5.4	To monitor progress achieved by Internal Audit against approved Audit plans.
9.5.5	Approve the appointment and removal of the Chief Internal Auditor or Outsourcing organisation.
9.5.6	Approve the Internal Audit Plan ensuring that it covers the Group's major risks.
9.5.7	Periodically review the Internal Audit Charter and to make appropriate recommendations to the Board when necessary.
9.5.8	Receive and consider reports from Internal Audit, particularly those detailing major findings relating to control weaknesses.
9.5.9	Review and monitor Management's responsiveness to the findings and recommendations of the Internal Auditor.
9.5.10	Meet with the Chief Internal Auditor/Audit Partner at least once a year, without Management being present, to discuss their remit and any issues arising from the internal audits carried out.
9.5.11	Ensure that the Head of Internal Audit has the right of direct access to the Chair of the Board and to the Committee
9.5.12	Ensure appropriate coverage of the key Corporate Plan risks in the Internal Audit work.
9.6	<b>EXTERNAL AUDIT</b>
Monitor and review the effectiveness of the Society's External Audit arrangements including:	
9.6.1	Assess the effectiveness of the function, consider and make recommendations to the Board, to be put to Members for approval at the AGM, in relation to the appointment, re-appointment and removal of the company's External Auditor.

9.6.2	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.
9.6.3	Oversee the relationship to ensure independence and objectivity with the External Auditor including:
9.6.3.1	Approving 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;
9.6.3.2	Approving the Non-Audit Services policy;
9.6.3.3	Approval of their terms of engagement;
9.6.3.4	Reviewing and agreement of the strategy document issued by the External Auditor at the start of each audit;
9.6.3.5	Development and implementation of a policy on the provision of non-audit services by the External Auditors, taking into account relevant ethical guidance relating to the provision of non-audit services by the External Audit firm;
9.6.3.6	Satisfying 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);
9.6.3.7	Monitoring the Auditor's compliance with relevant ethical and professional guidance on the rotation of the Audit partner, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements;
9.6.3.8	Receiving an annual report from the External Auditor on their own internal quality procedures to enable the Committee to assess the qualifications, expertise and resources of the Auditor and the effectiveness of the audit process;
9.6.3.9	Assessing annually their independence and objectivity, taking into account relevant UK professional and regulatory requirements and the relationship with the Auditor as a whole, including the provision of any non-audit services.
9.6.4	Seek to ensure co-ordination with the activities of the Internal Audit function.
9.6.5	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.
9.6.6	Review the findings of the audit with the External Auditor. This shall include but not be limited to, a discussion of any major issues which arose during the

	audit, any accounting and audit judgements, levels of errors identified during the audit and the effectiveness of the audit.
9.6.7	Review any representation letter(s) requested by the External Auditor before they are signed.
9.6.8	Review the management letter and Management's response to the Auditor's findings and recommendations, and make any appropriate recommendations to the Board.

## 10. REPORTING RESPONSIBILITIES

The Committee shall:

10.1	Report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
10.2	Make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
10.3	In the event non-audit services have been provided, the Committee will explain in the Annual Report & Accounts to members how objectivity and independence is safeguarded.

## 11. AUTHORITY

The Committee is authorised to:

11.1	Seek any information it requires from any employee of the Group 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	Call any employee to be questioned at a meeting of the Committee as and when required.
11.4	Have 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.
11.5	In the event the recommendation of the Committee on the appointment/reappointment of External Auditor is not accepted, the Committee must include a statement in the Annual Report & Accounts and in any accompanying papers recommending appointment or re-appointment, explaining their recommendation and setting out the reason why the Board has taken a different position.

## 12. RELATIONSHIP WITH THE BOARD RISK COMMITTEE (BRC)

The Committee achieves appropriate overlap with the BRC due to the following:

12.1	The Chair of the Audit Committee is a member of the Board Risk Committee.
12.2	The Chair of the Audit Committee reports on the work and findings of the Audit Committee at each BRC meeting.
12.3	The Audit Committee provides assurance on the effectiveness of the controls to the BRC for their assessment of risk.
12.4	The Audit Committee ensures that the key risks have appropriate coverage in the Audit Plan on an ongoing basis.
12.5	There is clear division of responsibilities in the Terms of Reference for the Committees for areas which could fall under the scope of either Committee e.g. (bribery, fraud, anti-money laundering).
12.6	The Audit Committee reviews the minutes of the BRC to identify any control failing and ensure appropriate coverage in the Audit Plan.
12.7	The Audit Committee may be required by the BRC to carry out specific work, following identification of control deficiencies.
12.8	The Audit Committee will make recommendations to the BRC on increased risks identified.
12.9	The Audit Committee will take advice from the BRC on areas of additional work from increased risk areas it has identified.

### 13. OTHER MATTERS

The Committee shall:

13.1	Have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required.
13.2	Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.
13.3	Oversee any investigation of activities which are within its Terms of Reference.
13.4	Be responsible for co-ordination of the Internal and External Auditors.
13.5	Ensure that the Internal and External Auditors have the opportunity at every meeting to raise issues with Non-Executive Directors in the absence of Executives if required.



13.6	Arrange for periodic reviews of its own performance and, at least annually, review its Terms of Reference to ascertain whether it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.
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<b>APPENDIX 1 – KEY DOCUMENTS AND GOVERNANCE</b>	
<b>Policies for Approval</b>	
Anti-Money Laundering Policy	
Anti-Bribery Policy	
Anti-Fraud Policy	
Mortgage Loss Provisioning Policy	
Non-Audit Services Policy	
Whistleblowing Policy	
<b>Policies for Review and Recommendation to the Board</b>	
Annual Report and Accounts	
Pillar 3 Disclosure	
Summary Financial Statement	