

## **AUDIT COMMITTEE TERMS OF REFERENCE**

<b>1. MEMBERSHIP</b>	
1.1	The Audit Committee is a sub-Committee of Furness Building Society Board of Directors.
1.2	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 Chairman of the Audit Committee (SMF11).
1.3	All members of the Committee shall be independent Non-Executive Directors at least one of whom shall have recent and relevant financial experience.
1.4	Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive, Finance Director, Chief Risk Officer, Chief Compliance Officer and Head of Internal Audit are expected to attend meetings. Other occasional invitees are asked to attend as and when appropriate and necessary.
1.5	A representative of the External Auditor is normally expected to attend meetings of the Committee on a regular basis. Their attendance 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 Chairman who shall be an independent Non-Executive Director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.
<b>2. SECRETARY</b>	
2.1	The Group Secretary or nominee shall act as the Secretary of the Committee.
<b>3. QUORUM</b>	
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 and provided to all other members of the Board unless it would be inappropriate to do so.
<b>7. ANNUAL GENERAL MEETING</b>	
7.1	The Committee Chairman should attend the Annual General Meeting to answer members' questions on the Committee's activities.
<b>8. COMMUNICATIONS WITH MEMBERS</b>	
<p>These Terms of Reference of the Audit Committee shall be made available to the Society's members. A separate section in the Annual Report &amp; Accounts will describe the work of the Audit Committee in discharging its responsibilities. The section shall include:</p> <ul style="list-style-type: none"> <li>• A summary of the role of the Audit Committee</li> <li>• The members of the Audit Committee during the period</li> <li>• The number of Audit Committee meetings</li> <li>• A report on the way the Audit Committee has discharged its responsibilities, and</li> <li>• 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.</li> </ul>	

## 9. DUTIES AND RESPONSIBILITIES

The Committee shall carry out the duties below for the Society, subsidiary undertakings and Group as a whole as appropriate:	
8.1	<b>FINANCIAL REPORTING</b>
8.1.1	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 judgments which they contain prior to approval by the Board.
8.1.2	In particular the Committee will challenge and make appropriate recommendations to the Board in relation to:
8.1.2.1	the consistency of, and any changes to, accounting policies both on a year-on-year basis and across the Society/Group;
8.1.2.2	the methods used to account for significant or unusual transactions where different approaches are possible;
8.1.2.3	whether the Group has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the External Auditor;
8.1.2.4	the clarity of disclosure in the Society's financial reports and the context in which statements are made; and
8.1.2.5	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).
8.1.3	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.
8.2	<b>INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS</b>
8.2.1	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.
8.2.2	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.
8.2.3	The Committee shall approve the Loan Loss Provisioning Policy.
8.2.4	The Committee shall approve the Outsourcing Policy.
8.3	<b>WHISTLEBLOWING, FRAUD AND BRIBERY</b>
The Committee shall:	
8.3.1	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.
8.3.2	Approve the Group's Whistleblowing Policy.
8.3.3	Review the Group's procedures for detecting fraud, including tax evasion.
8.3.4	Approve the Group's Fraud Policy.
8.3.5	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 Compliance Officer.
8.3.6	Approve the Group's Bribery Policy.
8.3.7	Review regular reports (including an annual report) from the Money Laundering Reporting Officer and the adequacy and effectiveness of the Society's anti-money laundering systems and controls.
8.3.8	Approve the Group's Anti Money Laundering Policy.
8.3.9	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.

8.4	<b>COMPLIANCE</b>
The Committee shall:	
8.4.1	Review regular reports from the Chief Compliance Officer and keep under review the adequacy and effectiveness of the Society's Compliance function.
8.4.2	Ensure that the Chief Compliance Officer has the right of direct access to the Chairman of the Board and to the Committee.
8.4.3	To receive reports on complaints received by the Group (unless considered by the Board).
<b>INTERNAL AUDIT</b>	
The Committee shall:	
8.5.1	Monitor and review the effectiveness of the Society's Internal Audit arrangements including:
8.5.1.1	an assessment of the scope of work performed by Internal Audit;
8.5.1.2	the nature and timing of Internal Audit reports;
8.5.1.3	adequacy of resources to achieve the agreed objectives of the function;
8.5.1.4	to monitor progress achieved by Internal Audit against approved Audit plans;
8.5.2	Approve the appointment and removal of the Chief Internal Auditor or Outsourcing organisation.
8.5.3	Approve the Internal Audit Plan ensuring that it covers the Group's major risks.
8.5.4	Periodically review the Internal Audit Charter and to make appropriate recommendations to the Board when necessary.
8.5.5	Receive and consider reports from Internal Audit, particularly those detailing major findings relating to control weaknesses.
8.5.6	Review and monitor Management's responsiveness to the findings and recommendations of the Internal Auditor.
8.5.7	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.
8.5.8	Ensure that the Head of Internal Audit has the right of direct access to the Chairman of the Board and to the Committee
8.5.9	Ensure appropriate coverage of the key Corporate Plan risks in the Internal Audit work.
<b>EXTERNAL AUDIT</b>	
The Committee shall:	
8.6.1	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.
8.6.2	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.
8.6.3	Oversee the relationship to ensure independence and objectivity with the External Auditor including (but not limited to):
8.6.3.1	approve 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;
8.6.3.2	approve the Non-Audit Services policy;
8.6.3.3	approval of their terms of engagement;
8.6.3.4	review and agreement of the strategy document issued by the External Auditor at the start of each audit;
8.6.3.5	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;
8.6.3.6	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);

8.6.3.7	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;
8.6.3.8	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;
8.6.3.9	assess 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.
8.6.3.10	seek to ensure co-ordination with the activities of the Internal Audit function.
8.6.4	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.
8.6.5	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.
8.6.6	Review any representation letter(s) requested by the External Auditor before they are signed.
8.6.7	Review the management letter and Management's response to the Auditor's findings and recommendations, and make any appropriate recommendations to the Board.
<b>10. REPORTING RESPONSIBILITIES</b>	
The Committee shall:	
9.1	Report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
9.2	Make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
9.3	Produce a report on its activities to be included in the Society's Annual Report & Accounts including how it has discharged its duties.
9.4	Ensure the Terms of Reference of the Committee are made available.
9.5	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.
<b>10. OTHER MATTERS</b>	
The Committee shall:	
10.1	Have access to sufficient resources in order to carry out its duties, including access to the Chief Compliance Officer & Group Secretary for assistance as required.
10.2	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.
10.3	Oversee any investigation of activities which are within its Terms of Reference.
10.4	Arrange for periodic 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
10.5	Be responsible for co-ordination of the Internal and External Auditors.
10.6	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.
<b>11. AUTHORITY</b>	
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**

The Audit Committee achieves appropriate overlap with the Board Risk Committee:	
12.1	The Chairman of the Audit Committee is a member of the Board Risk Committee.
12.2	The Chairman of the Audit Committee reports on the work and findings of the Audit Committee at each Risk Committee meeting.
12.3	The Audit Committee provides assurance on the effectiveness of the controls to the Board Risk Committee 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 the Audit or Board Risk Committees (bribery, fraud, anti-money laundering).
12.6	The Audit Committee reviews the minutes of the Board Risk Committee to identify any control failing and ensure appropriate coverage in the Audit Plan.
12.7	The Audit Committee may be required by the Board Risk Committee to carry out specific work, following identification of control deficiencies.
12.8	The Audit Committee will make recommendations to the Board Risk Committee on increased risks identified.
12.9	The Audit Committee will take advice from the Board Risk Committee on areas of additional work from increased risk areas identified by the Board Risk Committee.