

## AUDIT RISK & COMPLIANCE COMMITTEE TERMS OF REFERENCE

### **Purpose of the Committee**

The Committee's primary purpose is to provide oversight of the development, implementation and maintenance of the Society's Risk Management Framework and for assessing the effectiveness of the system of inspection and control, assessing accuracy and completeness of financial information, reviewing accounting policies and ensuring effective whistleblowing controls.

It reviews fairness of disclosure and recommends acceptance of the Annual Accounts to the Board. It monitors the performance, independence, objectivity, competence and effectiveness of the internal and external auditors and is responsible for recommending appointment, re-appointment or removal of the internal and external auditors

### **1. Constitution**

The Audit Risk & Compliance Committee is constituted as a Committee of the Board of The Chorley and District Building Society.

The Committee may from time to time investigate, discuss or review matters outside its terms of reference if required to do so by the Board.

### **2. Authority**

The Committee is authorised by the Board to investigate any activity within its terms of reference.

The Committee is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

The Committee is authorised to obtain external legal or other professional advice and to secure the attendance of anyone it considers has relevant experience, expertise or knowledge.

Minutes of each meeting are issued to all members and attendees and to the Board.

In the event of the Society's Recovery and Resolution Plan being enacted, the Committee will continue to operate and assess the timing of its meetings.

### **3. Membership**

All members shall be independent Non-Executive Directors of the Society.

#### **Members**

Mr. K. Bernbaum (Chairman)

Mr. D. Bagley

Mr. A. Horsley

#### **Attendees**

Mr. S. Penlington (Chief Executive)

Mrs. A. Kos (Finance Director)

Mrs. K. Roby (Customer Services Director)

Mr. S. Melbourne (Head of Risk and MLRO)

Mrs. D. Wilson (Head of Compliance and DPO)

External Auditor

Internal Auditor

#### **4. Quorum**

The quorum necessary for the transaction of the business of the Committee shall be two Committee members.

All matters shall be decided by a majority of votes. Every member present, including the Chairman shall have one vote. In the event of a tie, or if there is any fundamental disagreement between the two members, this must be referred to the Board.

At least once a year the Committee shall meet with the external and internal auditors without the Chief Executive, or any other employee being present.

At least once a year the Chairman of the Committee shall meet separately with the Head of Risk and the Head of Compliance and Data Protection Officer.

The Society's Chairman shall not be a member.

The Chairman of the Committee shall be appointed by the Board. In the absence of the Chairman, the remaining members shall elect one of them to chair the meeting.

#### **5. Frequency of Meetings**

The Committee shall meet on a quarterly basis with a separate meeting held in March to discuss the Annual Report & Accounts.

#### **6. Duties**

##### **Accounting and Audit Matters**

##### **Annual Report and Accounts**

- \* to review, agree and recommend for approval to the Board, the Society's Annual Report and Accounts, Summary Financial Statement, Going Concern Paper, Pillar 3 Disclosure, Section 68/69 Statement and Representation Letters
- \* to receive from the external auditors, the Final Audit Findings, FCA CASS Report and Section 68 Opinion
- \* to monitor the integrity of the financial statements of the Society and any formal announcements relating to the Society's financial performance, reviewing significant financial reporting judgements contained in them

##### **Financial Reporting**

- \* to monitor and review significant accounting policies and judgments on at least an annual basis as follows:
  - to receive and approve the Accounting Policy for Fixed Assets
  - to receive and approve the Accounting Policy for Mortgage Loss Provisioning
  - to review and approve the Accounting Policy for Effective Interest Rate (EIR) calculation
- \* to review and challenge where necessary the action and judgements of management in relation to the Society's financial statements, operating and financial review before submission to and approval by the Board and before clearance by the auditors. Particular attention should be paid to:
  - critical accounting policies and practices and any changes in them
  - decision requiring a significant element of judgement

- the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed
- the clarity of disclosures
- significant adjustments resulting from the audit
- the going concern assumption
- compliance with accounting standards
- \* to consider other topics as defined by the Board

### **External Audit**

- \* to make recommendations to the Board concerning the appointment, re-appointment or dismissal of the external auditors
- \* to oversee the selection process for a new auditor
- \* to consider any questions regarding the fees, terms of appointment or resignation of the external auditors and to recommend any changes in fees to the Board
- \* to review and monitor the external auditor's independence, objectivity and the effectiveness of the audit process
- \* to discuss with the external auditors before any audit commences the nature and scope of the audit
- \* to review, approve and monitor the External Audit Plan
- \* to discuss problems and reservations arising from the external audits and any matters the external auditors may wish to discuss (in the absence of management where necessary)
- \* to review the external auditor's management letter and management's response
- \* to monitor and review the effectiveness of the external audit function and management responses to the recommendations made

### **Internal Audit**

- \* to make recommendations to the Board concerning the appointment, re-appointment or dismissal of the internal auditors
- \* to oversee the selection process for a new auditor to consider any questions regarding the fees, terms of appointment or resignation of the internal auditors
- \* to review and monitor the internal auditor's independence, objectivity and the effectiveness of the audit process
- \* to discuss with the internal auditors before any audit commences the nature and scope of the audit
- \* to review, approve and monitor the Internal Audit Plan and Internal Audit Charter
- \* to receive an annual statement on the quality of controls in the business
- \* to discuss problems and reservations arising from the internal audits and any matters the internal auditors may wish to discuss (in the absence of management where necessary)
- \* to review the internal auditor's management letter and management's response
- \* to monitor and review the effectiveness of the internal audit function and management responses to the recommendations made

### **Risk**

- \* to receive from the Risk & Compliance Committee, review and recommend for approval to the Board the Risk Management Framework Policy
- \* to receive from the Risk & Compliance Committee, review and recommend for approval to the Board the Risk Appetite Policy
- \* to review, agree and recommend for approval to the Board, the Terms of Reference of the Audit Risk & Compliance Committee and Risk & Compliance Committee
- \* to receive quarterly updates on the performance of the Risk function

- \* to receive assurance that the Society has robust processes and internal controls in place and that they are effective in identifying, managing, monitoring and reporting risks the Society is or may be exposed to.
- \* to review the Risk Registers
- \* to keep under review the internal financial and non-financial controls and, unless expressly addressed in a separate Board Risk Committee composed of independent Directors, or by the Board itself, to review the internal control and risk management systems.
- \* to monitor via the Risk Dashboard the risk appetite against policy limits and assess the effectiveness of policies, processes and controls.
- \* to receive from the Risk & Compliance Committee, review and recommend for approval to the Board the Conduct Risk Framework Policy
- \* to receive from the Risk & Compliance Committee, review and recommend for approval to the Board the Operational Resilience Policy

### **Compliance**

- \* to receive from the Risk & Compliance Committee, review and approve the annual Compliance Monitoring Plan and Compliance Operating Policy
- \* to monitor arrangements for, and the achievement of, compliance with statutory and other requirements, governance and financial reporting
- \* to receive an annual statement on controls
- \* to receive quarterly updates on the performance of the Compliance Department
- \* to receive assurance that the Society has robust processes and internal controls in place and that they are effective in identifying, managing, monitoring and reporting risks the Society is or may be exposed to.

### **Financial Crime**

- \* to receive from the Risk & Compliance Committee, review and recommend for approval to the Board the Anti Bribery & Corruption Policy Statement, Anti Money Laundering Policy Statement and Fraud Risk Policy Statement
- \* to receive an Annual Report in relation to Fraud

### **Cyber**

- \* to receive from the Risk & Compliance Committee, review and recommend for approval to the Board the Cyber Security Policy and Cyber Incident Response Plan
- \* to receive a report on cyber security on a 6 monthly basis and to be satisfied that the Society is adequately protected

### **Data Protection**

- \* to receive from the Risk & Compliance Committee and approve the Data Protection Policy and Information Security Policy on at least an annual basis
- \* , are met
- \* to receive the DPO's Annual Report and recommend for approval to the Board

### **Recovery & Resolution Plan**

- \* to review and recommend to the Board the Recovery Plan on at least an annual basis
- \* to receive confirmation that the Resolution Pack has been updated and to provide an assurance to the Board that this is up-to-date and appropriate

- \* to receive from ALCO, review and recommend to the Board the Stress Testing and Reverse Stress Testing Policy Statement
- \* to review and recommend the Stress Tests to the Board for approval.
- \* to propose stress scenarios to test vulnerabilities of concern.
- \* to recommend strategic changes required to address vulnerabilities identified in the stress tests

### **Whistleblowing**

- \* to receive an annual report on Whistleblowing
- \* to review the effectiveness of whistleblowing processes on a least an annual basis

### **Complaints**

- \* to receive an annual report on Complaints and recommend for approval to the Board

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