

## AUDIT, RISK AND COMPLIANCE COMMITTEE (ARCC)

### TERMS OF REFERENCE

#### Purpose

The purpose of ARCC is to assist the Board in fulfilling its oversight responsibilities, specifically the ongoing review, monitoring and assessment of the following:

- Integrity of the financial statements (including significant judgements contained therein);
- Effectiveness of the system of internal controls;
- The internal and external audit functions (including engagement, performance and independence); and
- The effectiveness of the Risk Management Framework

#### Constitution

The ARCC is a Board sub-Committee reporting to the Board of Directors (Board).

#### Authority

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

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.

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.

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

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.

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

### **Membership**

All members of the Committee must be independent Non-Executive Directors of the Society.  
The Society's Board Chair must not be a member of the Committee.

Non-Executive Director (Chair) – Appointed by the Board  
Non-Executive Director  
Non-Executive Director

### **Attendees**

Chief Executive Officer (CEO)  
Finance Director  
Customer Services Director  
Head of Risk  
Head of Compliance  
External Auditor  
Internal Auditor  
Minute Taker  
Other staff members may be requested to attend and report as necessary

### **Attendance at Meetings**

In the absence of the Chair, remaining members shall elect one of their members to be Chair for that meeting.

The quorum necessary for the transaction of the business of the Committee shall be two (2) Committee members.

All matters shall be decided by a majority of votes. Every member present, including the Chair, 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 for decision.

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 Chair of the Committee shall meet separately with the Head of Risk and Head of Compliance.

### **Frequency of Meeting**

The Committee shall meet on a quarterly basis.  
Additional meetings are called as required by the Chair of ARCC.

## Duties

### External Audit Matters

- 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
  - Representation Letters
- Receive from the external auditors:
  - Final Audit Findings
  - FCA CASS Report
  - Section 68 Opinion
- 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
- Monitor, review and approve significant accounting policies and judgments on at least an annual basis as follows:
  - Accounting Policy for Fixed & Intangible Assets
  - Accounting Policy for Mortgage Loss Provisioning
  - Accounting Policy for Effective Interest Rate (EIR)
- Review and challenge 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
- Clarity of disclosures
- Significant adjustments resulting from the audit
- Going concern assumption
- Compliance with accounting standards
- Make recommendations to the Board concerning the appointment, re-appointment or dismissal of the external auditors
- Oversee the selection process for a new auditor
- 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

<ul style="list-style-type: none"> <li>• Review and monitor the external auditor’s independence, objectivity and the effectiveness of the audit process</li> </ul>
<ul style="list-style-type: none"> <li>• Discuss with the external auditors before any audit commences the nature and scope of the audit</li> </ul>
<ul style="list-style-type: none"> <li>• Review, approve and monitor the External Audit Plan</li> </ul>
<ul style="list-style-type: none"> <li>• 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)</li> </ul>
<ul style="list-style-type: none"> <li>• Review the external auditor’s management letter and managements response</li> </ul>
<ul style="list-style-type: none"> <li>• Monitor and review the effectiveness of the external audit function and management responses to the recommendations made</li> </ul>
<ul style="list-style-type: none"> <li>• Consider other topics as defined by the Board</li> </ul>
<p><b>Internal Audit Matters</b></p>
<ul style="list-style-type: none"> <li>• Make recommendations to the Board concerning the appointment, re-appointment or dismissal of the internal auditors</li> </ul>
<ul style="list-style-type: none"> <li>• Oversee the selection process for a new auditor to consider any questions regarding the fees, terms of appointment or resignation of the internal auditors</li> </ul>
<ul style="list-style-type: none"> <li>• Review and monitor the internal auditor’s independence, objectivity and the effectiveness of the audit process</li> </ul>
<ul style="list-style-type: none"> <li>• Discuss with the internal auditors before any audit commences the nature and scope of the audit</li> </ul>
<ul style="list-style-type: none"> <li>• Review approve and monitor the Internal Audit Plan and Internal Audit Charter</li> </ul>
<ul style="list-style-type: none"> <li>• Receive an annual statement on the quality of controls in the business</li> </ul>
<ul style="list-style-type: none"> <li>• 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)</li> </ul>
<ul style="list-style-type: none"> <li>• Review the internal auditor’s management letter and managements response</li> </ul>
<ul style="list-style-type: none"> <li>• Monitor and review the effectiveness of the internal audit function and management responses to the recommendations made</li> </ul>
<p><b>Compliance Assurance</b></p>
<ul style="list-style-type: none"> <li>• Recommend to Board, the appointment of Head of Compliance (SMF 16; Compliance Oversight)</li> </ul>
<ul style="list-style-type: none"> <li>• Receive from the Risk &amp; Compliance Committee, review and approve the <ul style="list-style-type: none"> <li>○ Annual Compliance Monitoring Plan</li> <li>○ Compliance Operating Policy</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• Monitor arrangements for, and the achievement of, compliance with statutory and other requirements via the quarterly Compliance Report</li> </ul>
<ul style="list-style-type: none"> <li>• Receive an Annual Statement on Controls</li> </ul>
<ul style="list-style-type: none"> <li>• Receive and review a quarterly Compliance Report including performance against the Compliance Monitoring Plan</li> </ul>

**Risk Management Framework**

- Recommend to Board, the appointment for Head of Risk (SMF 4; Chief Risk Function)
- Receive from the Risk & Compliance Committee, review and recommend for approval to the Board the Risk Management Framework
- Receive from the Risk & Compliance Committee, review and recommend for approval to the Board the Risk Appetite Policy
- Receive from the Risk & Compliance Committee, review and recommend for approval to the Board the following policies in support of the Risk Management Framework

Key Risk Category	Policies and Reports
<b>Operational Risk</b>	
Financial Crime Risk	<ul style="list-style-type: none"> <li>• Anti-Bribery &amp; Corruption Policy</li> <li>• Anti-Money Laundering (AML) Policy</li> <li>• Annual AML Report</li> <li>• Fraud Risk Framework</li> <li>• Annual Fraud Report</li> </ul>
Operational Resilience Risk	<ul style="list-style-type: none"> <li>• Operational Resilience Policy</li> <li>• Disaster Recovery Plan</li> <li>• Business Continuity Plan</li> <li>• Outsourcing &amp; Third-Party Supplier Policy</li> </ul>
Cyber & Information Security Risk	<ul style="list-style-type: none"> <li>• Cyber Security Policy incorporating Cyber Incident Response Plan</li> <li>• Six-monthly Cyber Security Report</li> <li>• Information Security Policy</li> <li>• Data Protection Policy</li> <li>• Quarterly Data Protection Report (via Compliance Report)</li> <li>• Annual Data Protection Report</li> <li>• Data Retention Policy</li> </ul>
<b>Conduct Risk</b>	<ul style="list-style-type: none"> <li>• Conduct Risk Framework</li> <li>• Annual Complaints Report</li> </ul>
<b>Regulatory &amp; Legal Risk</b>	<ul style="list-style-type: none"> <li>• Regulatory Risk Horizon Scanning via Compliance Report</li> <li>• Compliance Operating Policy</li> <li>• Compliance Monitoring Plan</li> </ul>

<ul style="list-style-type: none"> <li>• Receive and review a quarterly Risk Report, including assurance that the Society has robust processes and internal controls in place and that they are effective in identifying, managing, monitoring and reporting risks to which the Society is or may be exposed.</li> </ul>
<ul style="list-style-type: none"> <li>• Review the Risk Registers</li> </ul>
<ul style="list-style-type: none"> <li>• 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.</li> </ul>
<ul style="list-style-type: none"> <li>• Monitor Key Risk Indicators in relation Operational. Legal. Regulatory and Conduct Risk via the Key Risk Indicator Report</li> </ul>
<p><b>Other Matters</b></p>
<ul style="list-style-type: none"> <li>• Review, agree and recommend for approval to the Board, Terms of Reference of the <ul style="list-style-type: none"> <li>○ ARCC</li> <li>○ Risk &amp; Compliance Committee</li> </ul> </li> </ul>
<p><b>Reports Received (in addition to the Policies and reports detailed above)</b></p>
Annual Report and Accounts
Summary Financial Statement
Going Concern Paper
Pillar 3 Disclosure
Section 68/69 Statement and Opinion
Representation Letters
Final Audit Findings
FCA CASS Report
External Audit Findings Report
Internal Audit Reports
Internal Audit Charter
Audit Actions Tracker Report
Compliance & Data Protection Report
Annual Compliance Controls Report
Risk Register Reports
Key Risk Indicator Report