

**AUDIT, RISK AND COMPLIANCE COMMITTEE (ARCC)  
TERMS OF REFERENCE**

**Purpose**

The purpose of ARCC is to assist the Board of Directors (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 and compliance with 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 second line Board Sub-Committee reporting to the 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 Committee 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) & MLRO

Finance Director

Customer Services Director

Chief Risk Officer

Head of Compliance & DPO  
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, the remaining Committee members shall elect one of them to be Chair for that meeting.

The quorum necessary for the transaction of 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 any other attendee being present.

At least once a year, the Chair of the Committee shall meet separately with the Chief Risk Officer and Head of Compliance & DPO.

#### **Frequency of Meetings**

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

#### **Duties**

##### **Risk Management Framework**

- 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 Framework
- 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
- Review the Operational Risk Registers
- (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, the internal control and risk management systems
- Receive from the Risk & Compliance Committee, review and recommend for approval to the Board the following in support of the Risk Management Framework:

<b>Financial Crime Risk</b>	<ul style="list-style-type: none"> <li>• Anti-Bribery &amp; Corruption Policy</li> <li>• Anti-Money Laundering (AML) Policy</li> <li>• Anti-Fraud Policy</li> <li>• Annual AML Report</li> <li>• Annual Fraud Report</li> </ul>
<b>Operational Resilience Risk</b>	<ul style="list-style-type: none"> <li>• Operational Resilience Policy</li> <li>• Disaster Recovery Plan</li> <li>• Business Continuity Plan</li> </ul>
<b>Cyber &amp; Information Security Risk</b>	<ul style="list-style-type: none"> <li>• Cyber Security Policy &amp; Cyber Incident Response Plan</li> <li>• Information Security Policy</li> </ul>
<b>Conduct Risk</b>	<ul style="list-style-type: none"> <li>• Conduct Risk Framework</li> </ul>
<b>Regulatory &amp; Legal Risk</b>	<ul style="list-style-type: none"> <li>• Regulatory Risk Horizon Scanning via Compliance Report</li> </ul>
<ul style="list-style-type: none"> <li>• Receive from the Risk &amp; Compliance Committee, review and approve the following in support of the Risk Management Framework</li> </ul>	
<b>Operational Resilience Risk</b>	<ul style="list-style-type: none"> <li>• Outsourcing and Third Party Supplier Policy</li> </ul>
<b>Cyber &amp; Information Security Risk</b>	<ul style="list-style-type: none"> <li>• Data Protection Policy</li> <li>• Data Retention Policy</li> <li>• Data Classification Policy</li> </ul>
<b>Regulatory &amp; Legal Risk</b>	<ul style="list-style-type: none"> <li>• Health and Safety Policy</li> </ul>
<ul style="list-style-type: none"> <li>• Recommend to Board the appointment for Chief Risk Officer (SMF 4; Chief Risk Function)</li> </ul>	
<b>External Audit Matters</b>	
<ul style="list-style-type: none"> <li>• Review, agree and recommend for approval to the Board, the Society's:           <ul style="list-style-type: none"> <li>○ Annual Report and Accounts</li> <li>○ Summary Financial Statement</li> <li>○ Going Concern assessment</li> <li>○ Pillar 3 Disclosure</li> <li>○ Section 68/69 Statement</li> <li>○ Representation Letters</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li>• Receive from the External Auditor:           <ul style="list-style-type: none"> <li>○ Final Audit Findings</li> <li>○ FCA CASS Report (as appropriate)</li> <li>○ Section 68 Opinion</li> <li>○ Independence Letter</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li>• Review and 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</li> </ul>	

<ul style="list-style-type: none"> <li>• Monitor, review and approve significant accounting policies and judgements on at least an annual basis as follows: <ul style="list-style-type: none"> <li>○ Accounting Policy for Fixed &amp; Intangible Assets</li> <li>○ Accounting Policy for Mortgage Impairment</li> <li>○ Accounting Policy for Effective Interest Rate (EIR)</li> <li>○ Accounting Policy for Hedge Accounting</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• 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: <ul style="list-style-type: none"> <li>○ Critical accounting policies and practices and any changes in them</li> <li>○ Decision requiring a significant element of judgement</li> </ul> </li> <li>• The extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed</li> <li>• Clarity of disclosures including Climate Change</li> <li>• Significant adjustments resulting from the audit</li> <li>• Going concern assumption</li> <li>• Compliance with accounting standards</li> </ul>
<ul style="list-style-type: none"> <li>• Make recommendations to the Board concerning the appointment, re-appointment, remuneration or dismissal of the External Auditors</li> </ul>
<ul style="list-style-type: none"> <li>• Oversee the selection process for a new external Auditor</li> </ul>
<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 and agree 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>• Review and monitor 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, remuneration or dismissal of the Internal Auditors</li> </ul>
<ul style="list-style-type: none"> <li>• Oversee the selection process for a new internal Auditor</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 and agree 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>• Review and monitor 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>• Review and monitor arrangements for and the achievement of compliance with statutory, prudential, conduct 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 an Annual Data Protection Report</li> </ul>
<ul style="list-style-type: none"> <li>• Receive an Annual Complaints Report</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>
<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>
<ul style="list-style-type: none"> <li>• Monitor progress with the Climate Change project</li> </ul>