8.2 Terms of Reference of Risk, Audit, Compliance and Ethics Committee

Ultimate responsibility for the effective operation of the Society’s systems of control rests with the Society’s Board of Directors. The Board view Ethics as intimately bound up with the Society’s System of Control which is predicated on clearly articulated values based on the Triple Bottom Line approach and in particular with a focus on sustainability. The Board have delegated authority to a formal Committee; the Risk, Audit and Compliance and Ethics Committee (RACE) within the bounds of full written Terms of Reference, approved by the Board and available to be viewed by all members of the Society, that make clear its role, responsibilities and reporting lines. These are as outlined below:

8.2.1 Powers and Functions

The main responsibilities of RACE are to:

- review the full annual accounts (including the Directors’ Report and Annual Business Statement), the Summary Financial Statement and the Going Concern Statement prior to their approval by the Board;
- consider the adequacy of the Society’s accounting records, internal financial and business controls and to make recommendations for improvements where necessary;
- oversee implementation of any significant changes in financial reporting standards;
- review and ensure the adequacy of the Society’s procedures for evaluating risks in relation to existing and future business, and the related capital and liquidity requirements, and review regular reports thereof;
- ensure continuing compliance with regulatory controls;
- ensure that the culture of the Society in relation to all aspects of business conduct risk, including fulfilment of its mission, attitude to stakeholders including members, customers, colleagues and business partners, and responses to regulation are conducted according to the highest possible ethical standards;
- monitor and review the effectiveness of the internal audit function, including as appropriate appointment and dismissal; and
- assess the independence and competence of the external auditors, negotiate the external audit fee, make recommendations to the Board in respect thereof, and put to the members for their approval recommendations for the appointment, re-appointment and removal of the external auditor; and
- annual review of the Society’s Resolution Plan prior to submission to the Board.

RACE should also:

- periodically hold meetings or reserve part of meetings to be conducted without the Executive present;
- evaluate formally the effectiveness of the Committee’s processes on an annual basis; and
- consider any other matters as required by the Board.

The main responsibilities of RACE in relation to the External Audit function are to:

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consider whether the External Auditor’s overall work plan, including planned levels of materiality, and proposed resources to execute the audit plan appears consistent with the scope of the audit engagement, having regard also to the seniority, expertise and experience of the audit team;

review and monitor the External Auditor’s independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;

approve all non-audit assignments performed by the external auditors, following recommendations from the Chief Executive, to include an annual review of all such assignments; and

receive reports from the external auditors on the nature and extent of their work and on their resultant findings and recommendations as set out in their management letter.

In relation to the Internal Audit function, the main responsibilities are to:

- establish and monitor a system of independent assurance (Internal Audit);
- approve documented terms of reference for Internal Audit;
- approve the internal audit annual plan (SYSC 6.2.1) and longer term plans;
- approve any amendments to the internal audit plan in year;
- review and consider regular reports from internal audit (SYSC 6.2.1), the format and content of such reports to be set by the Committee;
- continually review and assess the scope, coverage, operating methods, skills, staffing levels and overall competence and effectiveness of Internal Audit; and
- ensure the continued independence and objectivity of Internal Audit from the Society’s management and to maintain the right of access to RACE and, if necessary, to the Chair of the Society.

The main responsibilities of RACE in relation to the Compliance function are to:

- ensure the Society’s continuing compliance with the regulatory regime of the FCA and PRA, other regulators and voluntary codes of practice through the receipt of regular reports from the Compliance Manager;
- assess what compliance issues are relevant to the Society, what impact they will have on the business and what resources are required;
- approve the annual Compliance Monitoring Plan, taking into account the risk assessment of each business area, ensuring that the programme adequately addresses the Society’s procedures and controls;
- assess the adequacy of the resources and skills of those involved in the compliance monitoring programme; and
- address any shortfalls/findings identified from the monitoring performed and review corrective action proposed by management.

The main responsibilities of RACE in relation to the Risk function are:
• Oversight of current and potential risks within the context of the agreed Risk appetite;
• Close scrutiny of out-of-appetite risks and where necessary, escalation to Board level with recommendations for acceptance, mitigation, controls or eliminating the activity which generates the risk;
• A forward-looking view of risk in the sense of challenges posed by the Corporate Plan, political and economic environment, climate change, succession etc;
• Embedding and maintenance of the risk management framework;
• Ensuring that RACE is aware of the work of other Committees in relation to Risk, particularly for Asset & Liability Committee and Board Lending Committee, by key members of those Committees being either formal members of RACE or regular attendees. If this is not the case, making sure that this is covered by special attendance and/or written reports to RACE as necessary;
• Advising the Board on the continued appropriateness of the overall risk appetite including conduct and operational risks and strategy; and
• Ensuring that the current and future financial environment has been considered.

The main responsibilities of RACE in relation to the Ethics function are:
• Ensure that the System of Control operates to uphold the values of the Society;
• Ensure that Governance reflects the values and ethics of the Society;
• Ensure that ethical considerations are embedded in the risk management framework;
• Ensure that product development has sufficiently considered the ethical approach of the Society in the design phase;
• Ensure that Society Governance structures place the highest emphasis on compliance with the TCF initiative, in the particular guise of Treating Members Fairly and conduct risk in general;
• Monitoring KPI’s/MI re conduct risk to ensure the Society is focussed on good customer outcomes and making recommendations on corrective actions; and
• Advising the Board on potential changes to the Constitution of the Society where such changes would strengthen the ethical approach taken by the Society or eliminate threats to that approach.

8.2.2 Policy Development

RACE should annually (*biennially) review the following policies and propose changes as necessary:
• Anti-Bribery*
• Anti-Money Laundering
• Cyber Security Strategy
• Conflicts of Interest and Whistle Blowing*
• Corporate Responsibility*
• Data Protection
• Equal Opportunities*
• Ethics and Ethics Appetite Statement
• Gifts and Entertainment register
• Incident Response Plan
• Information Security
• New Business Initiatives*
• Outsourcing and Procurement
• Pillar 3 Declaration
• Provision of Non-Audit services by External Audit
• Recovery Plan
• Resolution Pack
• Risk Management Framework
• Systems and Controls
• Tax Compliance*
• Vulnerable Customers

8.2.3 Reports Received

• Annual Accounts (Annually at March meeting)
• Chief Risk Officer’s report including key and emerging risks
• Compliance
• Compliance Monitoring Plan (Annually at December meeting)
• Ethics
• External Audit Reports (Including External Audit Plan in September)
• Going Concern Statement
• Individual/collective Provisions
• Internal Audit Reports (Including Audit Plan in December)
• Review of risks (Annually at September meeting)
• Risk Metrics Report including ethics risk KPI’s/MI (to be developed)
• Risk Register (As part of CRO’s report)

8.2.4 Composition

Three non-executive directors will serve as members of the Committee in accordance with SYSC 4.1.11G. These should include those with specific financial expertise and time in view of the onerous and complex matters to be considered. The Chair of the Committee should not be the Society Chair.

The following are required to attend meetings at the request of the Committee:

• Senior management
• Chief Risk Officer
• Compliance Manager
• Internal audit
• External audit representative
• Risk and Ethics Manager
• Board Governance Officer as Secretary

The presence of Senior Management allows for full and immediate response to all matters considered.

A quorum will be two members of the Committee; where absence is unavoidable, a deputy non-executive director will be invited to attend.

8.2.5 Ratification

The Chair of the Committee should report on the deliberations and decisions of the Committee at the next full meeting of the Board. There is no requirement for ratification except that the full annual accounts and the summary financial statement need the approval of the Board.

8.2.6 Frequency of Meetings

The Committee shall meet at quarterly intervals set at agreed dates. Additional meetings of the Committee shall be held as and when required. Minutes shall be taken at all meetings, and circulated to all Committee members, the full Board, and the Society’s Internal and External Auditors. Meetings will normally be minuted by the Governance Officer in attendance.

These Terms of Reference are reviewed annually by RACE at their December meeting. Any changes are included in the Governance Manual update for Board approval.