

## **Risk, Audit, Compliance and Ethics Committee (RACE)**

### **Terms of Reference**

Last reviewed by Committee: October 2021

Last Approved by Board: November 2021

### **1. Membership**

1.1 The committee shall comprise at least three members, all of whom shall be independent non-executive directors. At least one member shall have recent and relevant financial experience and the committee as a whole shall have competence relevant to the sector. The chair of the board shall not be a member of the committee.

1.2 Appointments to the committee are made by the board on the recommendation of the nomination committee and in consultation with the chair of the RACE committee and shall be for a period of up to three years, which may be extended for up to two additional three-year periods, provided members continue to be independent.

1.3 Only members of the committee have the right to attend committee meetings. However, the Chief Executive Officer, the Finance Director, internal and external audit lead partners will be invited to attend meetings of the committee on a regular basis and other individuals may be invited to attend for all or part of any meetings, as and when appropriate.

1.4 The board shall appoint the committee chair. In the absence of the committee chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting from those who qualify under these terms of reference to be appointed to that position by the board.

### **2. Secretary**

The society secretary, or their nominee, shall act as secretary of the committee and will ensure that the committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

### **3. Quorum**

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

### **4. Frequency of meetings**

The Committee shall meet a minimum of four times per annum and otherwise as required.

### **5. Notice of meetings**

5.1 Meetings of the committee shall be called by the secretary of the committee at the request of the committee chair or any of its members.

5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time, and date, together with an agenda of items to be discussed, shall be forwarded to each

member of the committee and any other person required to attend no later than 5 working days before the date of the meeting. Unless otherwise agreed, supporting papers shall be sent to committee members and to other attendees, as appropriate, at the same time.

## **6. Minutes of meetings**

6.1 The secretary shall minute the proceedings and decisions of all committee meetings, 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 the Society's internal and external auditors. Once approved, minutes should be made available to all other members of the board and the company secretary unless, exceptionally, it would be inappropriate to do so.

## **7. Engagement with stakeholders**

7.1 The committee chair should attend the annual general meeting to answer any member questions on the committee's activities. In addition, the committee chair should seek engagement with members on significant matters related to the committee's areas of responsibility where appropriate to do so.

## **8. Duties**

8.1 The Committee shall:

- 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
- conduct an annual review of the Society's Resolution Plan prior to submission to the Board.

8.2 In relation to the External Audit function, the Committee shall:

- 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.

8.3 In relation to the Internal Audit function, the committee shall:

- 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.

8.4 In relation to the Compliance function, the committee shall:

- 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 Risk & Compliance Team;
- 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 and Compliance Assurance 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.

8.5 In relation to the Risk function, the committee shall:

- provide oversight of current and potential risks within the context of the agreed Risk appetite;
- provide 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;
- provide a forward-looking view of risk in the sense of challenges posed by the Corporate Plan, political and economic environment, climate change, succession etc;
- Ensure the embedding and maintenance of the risk management framework;

- Ensure 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;
- Advise the Board on the continued appropriateness of the overall risk appetite including conduct and operational risks and strategy; and
- Ensure that the current and future financial environment has been considered.

8.6 In relation to the Ethics function, the committee shall:

- 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;
- Monitor KPI's/MI re conduct risk to ensure the Society is focussed on good customer outcomes and making recommendations on corrective actions; and
- Advise 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.

## 9. Reporting responsibilities

9.1 The committee chair shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the board on how it has discharged its responsibilities.

9.2 The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed, and adequate time should be made available for board discussion when necessary.

9.3 The committee shall compile a report on its activities to be included in the Society's annual report. The report should describe the work of the audit committee, including

9.3.1 the significant issues that the committee considered in relation to the financial statements and how these issues were addressed.

9.3.2 an explanation of how the committee has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans.

9.4 In compiling the reports referred to in 9.1 and 9.3, the committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant but should include at least those matters that have informed the board's assessment of whether the Society is a going concern and the inputs to the board's viability statement. The report to members need not repeat information

disclosed elsewhere in the annual report and accounts but could provide cross-references to that information.

9.5 The committee shall receive reports on the following:

- 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)

## 10. Other matters

The committee shall:

10.1 Have access to sufficient resources to carry out its duties, including access to the company secretariat for advice and 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 Give due consideration to all relevant laws and regulations, as appropriate.

10.4 Be responsible for oversight of the coordination of the internal and external auditors.

10.5 Oversee any investigation of activities which are within its terms of reference.

10.6 Work and liaise as necessary with all other board committees ensuring interaction between committees and with the board is reviewed regularly, taking particular account of the impact of risk management and internal controls being delegated to different committees.

10.4 Ensure that a periodic evaluation of the committee's own performance is carried out.

10.5 At least annually, review the committee's constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval.

## 11. Authority

11.1 The committee is authorised by the board to obtain, at the company's expense, outside legal, accounting, or other professional advice on any matters within its terms of reference.

11.2 Seek any information it requires from any employee of the Society in order to perform its duties.

11.3 Call any employee to be questioned at a meeting of the committee as and when required.

11.4 To periodically hold meetings or reserve part of meetings to be conducted without the Executive present;

11.5 Have the right to publish in the Society's annual report, details of any issues that cannot be resolved between the committee and the board. If the board has not accepted the committee's recommendation on the external auditor appointment, reappointment or removal, the annual report should include a statement explaining the committee's recommendation and the reasons why the board has taken a different position.

11.6 The Committee has delegated authority to scrutinize and approve or recommend for approval policies assigned to it under the Policy Governance Framework and Policy Delegations Schedule.