AUDIT COMMITTEE TERMS OF REFERENCE

1. Purpose

1.1 The primary purpose of the Audit Committee (AC) is to provide oversight of:

- the financial reporting process and the associated external audit process and relationship with the external auditors
- the associated third line of defence activity concerning the Society's system of internal controls, also referred to as the internal audit process
- the relationship with the internal auditors

2. Membership

2.1 The AC shall comprise at least three members, all of whom should be non-executive directors. It is desirable for the Board to include at least one member of the Board Risk Committee as a Member of the AC to ensure regular consultation between the two committees

2.2 Members shall have appropriate experience, knowledge, skills and expertise and the AC shall have competence relevant to the sector in which the Society operates.

2.3 Members of the AC shall be appointed annually by the Board and in consultation with the chair of the AC. Appointments shall be for a period of one year.

2.4 Only members of the AC have the right to attend Committee meetings. However, the CEO, CFO, Chief Risk Officer as well as senior representatives from the Society's Internal Auditors and External Auditors will be invited to attend meetings on a regular basis. Other individuals may be invited to attend all or part of any meeting as and when appropriate.

2.5 The Board shall appoint the AC chair. In the absence of the AC Chair and/or an appointed deputy at a Committee meeting, the remaining members present shall elect one of themselves to chair the meeting.

2.6 The Chair of the Committee is designated as SMF 11 - Chair of Audit Committee.

3. Secretary

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

Duties

Financial

Reporting

4.1 The AC shall monitor the integrity of the financial statements of the Society, including any preliminary announcements and any other formal statements relating to its financial performance, and review and report to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the External Auditor.

4.2 In particular, the AC shall review and challenge where necessary:

- the determination and application of significant Accounting policies and oversee any changes to them
- the methods used to account for significant or unusual transactions where different approaches are possible
- whether the Society has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements
- the clarity and completeness of disclosures in the financial statements and the context in which statements are made
- all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management.

4.3 The AC shall review any other statements requiring Board approval that contain financial information first, where this would be practicable and consistent with any prompt reporting requirements under any law or regulation.

4.4 Where the AC is not satisfied with any aspect of the proposed financial reporting by the Society, it shall report its views to the Board

Narrative reporting

Where requested by the board, the AC should review the content of the annual report and accounts and advise the board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for members to assess the Society's performance, business model and strategy and whether it informs the board's statement in the annual report on these matters that is required under accounting standards or best practice in Governance.

Internal controls systems

The AC shall:

4.5 keep under review the Society's internal financial controls systems that identify, assess, manage and monitor financial risks, and oversee the assurance of the Risk and Control Matrices.

4.6 oversee the adequacy and security of the Society's arrangements for its employees, contractors and external parties to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The AC shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

Internal audit

The committee shall monitor and review the effectiveness of the Society's Internal Audit arrangements including:

4.10 approve the nature of internal audit arrangements, leading periodic re-assessment of those arrangements and overseeing the appointment or termination process.

4.11 review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work, and periodically approve the internal audit charter ensuring it is appropriate for the current needs of the organisation.

4.12 review and approve the annual internal audit plan to ensure it is aligned to the key risks of the business, and receive regular reports on work carried out.

4.13 review and consider the reports produced by Internal Audit, particularly those detailing major findings related to control weaknesses.

4.14 ensure the internal auditor has direct access to the Board Chair and to the AC chair, providing independence from the executive and accountability to the committee.

4.15 review the actions taken and timeliness of implementation by management to implement the recommendations of internal audit and to support the effective working of the internal audit function.

4.16 monitor and assess the role and effectiveness of the internal audit function in the overall context of the Society's risk management system and the work of compliance, finance and the external auditor.

4.17 assess annually the internal auditor's independence and objectivity considering relevant law, regulation, the Ethical Standard and other professional requirements and the Society's relationship with the internal auditor.

External Audit

The AC shall monitor and review the effectiveness of the Society's External Audit arrangement including:

4.18 consider and make recommendations to the board, to be put to members for approval at the AGM, in relation to the appointment, re-appointment and removal of the Society's external auditor.

4.19 develop and oversee the selection procedure for the appointment of the audit firm.

4.20 if an external auditor resigns, investigate the issues leading to this and decide whether any action is required.

4.21 oversee the relationship and independence of the external auditor.

4.22 assess annually the external auditor's independence and objectivity considering relevant law, regulation, the Ethical Standard and other professional requirements and the Society's relationship with the external auditor.

4.23 satisfy itself that there are no relationships between the auditor and the Society (other than in the ordinary course of business) that could adversely affect the auditor's independence and objectivity.

4.24 agree with the board a policy on the employment of former employees of the Society's auditor, taking into account the Ethical Standard and legal requirements, and monitor the application of this policy.

4.25 monitor the auditor's processes for maintaining independence, its compliance with relevant law, regulation, other professional requirements and the Ethical Standard, including the guidance on the rotation of audit partner and staff.

4.26 monitor the level of fees paid by the Society to the external auditor compared to the overall fee income of the firm, office and partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standard.

4.27 assess annually the qualifications, expertise and resources, and independence of the external auditor and the effectiveness of the external audit process.

4.28 seek to ensure coordination of the external audit with the activities of the internal audit function.

4.29 develop and recommend to the board the Society's formal policy on the provision of non-audit services by the auditor.

4.30 meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and, at least once a year, meet with the external auditor without management being present, to discuss the auditor's remit and any issues arising from the audit.

4.31 discuss with the external auditor the factors that could affect audit quality and review and approve the external auditor's annual audit plan.

4.32 review the findings of the audit with the external auditor.

4.33 review any representation letters requested by the external auditor before they are signed by management and review the management letter and management's response to the auditor's findings and recommendations.

4.34 receive an annual report for the auditors reviewing their effectiveness of the external audit process.

Assurance effectiveness

4.35 Review the approved Second Line Oversight Plan to ensure the combined Assurance Plan (second- & Third-Line Assurance) provides adequate coverage across the Society's Risk Taxonomy, and receive regular reports on work carried out

4.36 review the actions taken by management to implement the recommendations from the Second Line Oversight Plan activity.

The relationship that the AC has with the Board Risk Committee is laid out in a supplementary document.

5. Decision Making/Quorum

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

5.2 Votes are passed with a simple majority. In the event of a tied vote the Chair has the deciding vote.

6. Frequency of Meetings

6.1 The Committee shall meet at least four times a year at appropriate times and otherwise as required.

6.2 Outside of the formal meeting programme, the AC chair will maintain a dialogue with key individuals involved in the Society's governance, including the board chair, the chief executive, the finance director, the external audit lead partner and the head of internal audit.

7. Notice of Meetings

7.1 Meetings of the AC shall be called by the secretary of the Committee at the request of the AC chair or any of its members if they consider it necessary.

7.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date of the meeting, together with an agenda of items to be discussed, shall be forwarded to each member of the AC and any other person required to attend no later than [five] working days before the date of the meeting. Supporting papers shall be sent to AC members and to other attendees, as appropriate, at the same time.

8. Minutes of Meetings

8.1 The secretary shall minute the proceedings and decisions of all AC meetings, including recording the names of those present and in attendance.

8.2 Draft minutes of AC meetings shall be circulated to all members of the Committee. Once approved, minutes are to be made available at request to all members of the Board unless, exceptionally, it would be inappropriate to do so

9. Sub Committees

9.1 There are no sub-committees of the AC.

10. Engagement with Members

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

11. Escalation

11.1 The Committee may escalate any matter to the Board if it considers the matter requires consideration beyond the scope of authority delegated to it.

12. Reporting Responsibilities

12.1 The AC 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.

12.2 The AC shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.

12.3 The AC shall compile a report on its activities to be included in the company's annual report.

12.4 In compiling the reports referred to above, the AC should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant.

12.5 Review the content, integrity and completeness of new or materially enhanced external statements and disclosures about environmental and social activity, targets and process. This would include oversight of Environmental, Social, and Impact (ESI) related reporting in the annual report, mandatory or voluntary disclosures (for example the PRI self-assessment and impact reports).

12.6 Review the requirements of assurance on environmental and social related matters and as necessary.

13. Other Matters

The AC shall:

13.1 Have access to sufficient resources in order to carry out its duties, including access to the Society secretariat for advice and assistance as required.

13.2 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.

13.3 Give due consideration to all relevant laws and regulations as appropriate.

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

13.5 Oversee any investigation of activities that are within its terms of reference.

13.6 Work and liaise as necessary with all other board Committees ensuring interaction between Committees and with the board is reviewed regularly.

13.7 Ensure that a periodic evaluation of the AC's performance is carried out.

13.8 At least annually, review its 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.

14. Authority

The AC is authorised to:

14.1 Seek any information it requires from any employee of the Society to perform its duties.

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

14.3 Obtain, at the Society's expense, independent legal or other professional advice on any matter within its terms of reference if it believes it necessary to do so.

14.4 Have the right to publish in the Society's annual report, details of any issues that cannot be resolved between the AC 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 AC's recommendation and the reasons why the board has taken a different position.

14.5 Approve Teir 2 Policies as defined in the Enterprise Risk Management Framework.

15. Effective Date

15.1 These Terms of Reference are effective from April 2026. The terms may be reviewed at a future meeting of the Committee and any subsequent changes recommended to the Board for approval.

Change Control

Version	Date	Owner / Author	Update
1.0	21 April 2023	Chair / Society Secretary	Terms of Reference approved by Board.
1.1	1 March 2024	Board Secretariat	Annual review by Committee. No changes.
1.2	11 April 2025	CEO	Updated to reflect: agreed change to transfer compliance activity to Board Risk Committee and define the Committees assurance responsibilities Inclusion of ESI responsibilities Inclusion of approval of Tier 2 Policies, as outlined in the ERMF
1.3	29 April 2025	CRO	Updated to reflect Board feedback from the out of cycle meeting 25th April 2025 - Updated throughout to reflect committee name (Audit Committee) - Removal of ESI responsibilities, these have been transferred to Board
1.4	23 February 2026	Audit Committee Secretary	Annual review by Committee. No changes - TBC