

HINCKLEY AND RUGBY BUILDING SOCIETY

AUDIT AND COMPLIANCE COMMITTEE TERMS OF REFERENCE

Version Control

No.	Version	Owner	Date
1.0	Document creation	Co-Sec	May 23
2.0	Annual Review	Co-Sec	Sep 24

Approval Control

Version	Body	Action	Owner	Date
1.7	ACC	Recommend	Co-Sec	May 23
1.7	Board	Approve	Co-Sec	Aug23
2.0	ACC	Recommend	Co-Sec	Sep 24
2.0	Board	Approve	Co-Sec	Nov 24

These Terms of Reference are reviewed on an annual basis and will be approved at the end of each financial year in readiness for the year ahead.

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Introduction

The Audit and Compliance Committee (Committee) is a sub-Committee of the Hinckley and Rugby Building Society, (The Society) Board of Directors (The Board).

The Committee has been established to ensure the independence and effectiveness of internal and external Audit functions, satisfy itself on the integrity of financial and narrative statements and provide oversight and monitoring of the Society's financial controls. Other duties are set out in Section 8 below.

I. Membership

- 1.1. The Committee shall comprise at least three members, all of whom shall be independent Non-Executive Directors. The Committee shall include at least one member of the Board Risk Committee, it is normally anticipated that this would be the Chair. At least one member shall have recent and relevant financial experience, and the Committee as a whole shall have competence relevant to financial services/ Building Society 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 Nominations and Governance Committee in consultation with the Committee Chair.
- 1.3. Executive Directors, Internal Auditors and External Auditors may be invited to attend meetings of the Committee at the discretion of the Chair.
- 1.4. The Board shall appoint the Committee Chair. In the absence of the Committee Chair the remaining members present shall elect one of themselves to Chair the meeting.

2. Secretary

The Society secretary, or their nominee, shall act as the 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.

- 3.1. A decision of the Committee may be taken by written resolution or via electronic means. A decision in this instance will be valid only if taken by a quorum as set out in the terms of reference
- 3.2. The members of the Committee shall be deemed to meet together if they are in separate locations, but are linked by conference telephone, video or other communication equipment. For the avoidance of doubt, a quorum in such event shall be as set out in 3 above. Such a meeting shall be deemed to take place where the largest group of members of the Committee participating is assembled or, if there is no such group, where the Chair of the meeting is located

4. Frequency of meetings

The Committee shall meet at least four times a year 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 six clear calendar

days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time.

6. Minutes of the meeting

- 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 will be approved at the following meeting.

7. Engagement with members

- 7.1. The Committee Chair should attend the annual general meeting to answer any member questions on the Committee's activities.

8. Duties

Financial Reporting

- 8.1. The Committee shall monitor the integrity of the financial statements of the Society, 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.
- 8.2. In particular, the Committee shall review and challenge where necessary:
 - 8.2.1. the application of significant accounting policies and any changes to them
 - 8.2.2. the methods used to account for significant or unusual transactions where different approaches are possible
 - 8.2.3. whether the Society has adopted appropriate accounting policies and made appropriate estimates and judgements, giving due consideration to the external Auditor's views on the financial statements
 - 8.2.4. the clarity and completeness of disclosures in the financial statements and the context in which statements are made
 - 8.2.5. 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.

Narrative Reporting

- 8.3. The Committee 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 the Code.

Internal controls and risk management systems

- 8.4. keep under review the Society's internal financial controls framework that identify, assess, manage and monitor financial controls. For the avoidance of doubt, the oversight of financial risks, is the responsibility of the Board Risk Committee.
- 8.5. Ensure the principal risks identified by the RMF are adequately considered within the Society's Integrated Assurance Plan, and provide oversight of systems of control through reviewing reports delivered by Second and Third lines undertaking this plan of work
- 8.6. review and approve the statements to be included in the annual report concerning internal control, risk management, including the assessment of principal risks and emerging risks, and the going concern statement.

External Audit

- 8.7. To 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;

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- 8.8. develop and oversee the selection procedure for the appointment of the Audit firm in accordance with applicable Code and regulatory requirements;
- 8.9. oversee the relationship with the external Auditor. In this context the Committee shall:
- 8.10. recommend the remuneration, including fees for Audit, and ensure that the level of fees is appropriate to enable an effective and high-quality Audit to be conducted;
 - 8.10.1. approve their terms of engagement, including any engagement letter issued at the start of each Audit and the scope of the Audit;
- 8.11. assess annually the external Auditor's independence and objectivity taking into account relevant law, regulation, the Ethical Standard and other professional requirements and the Society's relationship with the Auditor as a whole, including any threats to the Auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services.
- 8.12. recommend to the board for approval the Society's formal policy on the provision of non-audit services by the Auditor;
- 8.13. 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;
- 8.12. assess annually the qualifications, expertise and resources, and independence of the external Auditor and the effectiveness of the external Audit process, which shall include a report from the external Auditor on their own internal quality procedures;
- 8.13. seek to ensure coordination of the external Audit with the activities of the internal Audit function;
- 8.14. meet regularly with the external Auditor 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.
- 8.15. review the findings of the Audit with the external Auditor;
- 8.16. review any representation letter(s) requested by the external Auditor before it is (they are) signed by management;
- 8.17. review the management letter and management's response to the Auditor's findings and recommendations.

Internal Audit

- 8.18. Approve the appointment or termination of appointment of the Internal Audit function;
- 8.19. review and approve the role and mandate of internal Audit, monitor and review the effectiveness of its work, and annually approve the internal Audit charter ensuring it is appropriate for the current needs of the organisation;
- 8.20. 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;
- 8.21. ensure internal Audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate;
- 8.22. ensure the internal Auditor has direct access to the Committee Chair and to the Chair of the Board, providing independence from the executive and accountability to the Committee;
- 8.23. meeting with the Internal Auditors, at least annually, without the presence of management to discuss the effectiveness of the function;
- 8.24. assess annually the qualifications, expertise and resources, and independence of the Internal Auditor and the effectiveness of the internal Audit process, which shall include a report from the Internal Auditor on their own internal quality procedures.

Compliance and Fraud

- 8.25. The Committee will monitor and review the effectiveness of the Society's Compliance Monitoring function and, on a regular basis, assess the adequacy and effectiveness of the measures and procedures put in place and the actions taken to address any deficiencies in the Society's compliance with its obligations, including FCA and PRA regulatory

- requirements, Codes of Practice and implementation of new legislation or rules.
- 8.26. The Committee will review and approve the Compliance Monitoring function's remit, having regard to the complementary roles of the Internal Audit and Compliance Monitoring functions. The Committee will ensure that the function has the necessary resources and access to information to enable it to fulfil its mandate.
- 8.27. In its review of the work of the Compliance Monitoring function, the Committee will:
- 8.27.1. review, assess and approve the Compliance Monitoring work plan
 - 8.27.2. Review and monitor Management's responsiveness to the Compliance Monitoring function's findings and recommendations.
- 8.28. The Committee will provide oversight of the controls for the detection and prevention of fraud. As part of this oversight the Committee will receive and review:
- 8.28.1. MLRO Financial Crime Controls Report
 - 8.28.2. Internal Controls Report
 - 8.28.3. Insurance Controls Report
 - 8.28.4. Fraud Controls Report and controls designed to mitigate the risk of fraud.
 - 8.28.5. Fraud relating to financial reporting.
- Failures related to operational failures or conduct issues will be reported and assessed at the Risk Committee.
- 8.29. Policies
- 8.29.1. Review and approve the proposed Accounting Treatment
 - 8.29.2. Review and approve Financial Crime Policy
 - 8.29.3. Review and approve the Fire, Health and Safety Policy
 - 8.29.4. Review and approve the Non-Audit Services Policy
 - 8.29.5. Review and approve the Regulatory Reporting Policy
 - 8.29.6. Review and approve the Vulnerable Customers Policy
 - 8.29.7. Review and approve the Change Management Policy

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.
- 9.2. In accordance with the UK Corporate Governance Code the work of the Committee will be explained in a separate section of the Society's Annual Report and Accounts.

10. Other Matters

- 10.1. The Chair will lead on the annual performance evaluation of the Committee
- 10.2. The Committee will ensure that it remains up to date with all developments in financial regulation and legislation through carefully considered horizon scanning.
- 10.3. The Committee will 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.
- 10.4. The Committee will ensure that it has access to the services and advice of the Company Secretary

11. Authority

- 11.1. These Terms are the responsibility of the Board and cannot be delegated
- 11.2. The Terms will be reviewed by the Committee and recommended to the Board for approval on an annual basis.
- 11.3.
- 11.4. The Committee is a Committee of the Board and has delegated authority from the Board to which it regularly reports in respect of its functions and responsibilities as set out in these

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- 11.5. 2.2 The Committee may sub-delegate any or all of its powers and authority as it sees fit, including, without limitation, the establishment of sub-committees to analyse particular issues and to report back to the Committee.
- 11.6. 2.3 The Committee has authority to oversee any investigation of activities relating to the Society which are within these Terms of Reference.
- 11.7. 2.4 The Committee is authorised to seek any information it requires from any employee of the Society in order to perform its duties or call any employee to be questioned at a meeting of the Committee as and when required.
- 11.8. 2.5 The Committee may obtain, at the Society's expense, external legal or other professional advice on any matter within these Terms of Reference.
- 11.9. 2.6 The Committee Chair and the Society Secretary are authorised by the Board to review and approve any non-material change required to be made to these Terms of Reference. Any such change shall be reported to the Board