

## **Audit Committee: Terms of Reference**

### **1. The Role of the Audit Committee**

- a) The Committee is a committee of the Board of Scottish Building Society from which it derives its authority and was established to consider and advise the Board on the integrity of the Society's Financial Statements, all audit related matters and adequacy of internal controls. The remit is reviewed at least annually by the Board.

### **2. Membership**

- a) The Committee is appointed by the Board. All members of the Committee are independent non-executive directors of the Society. The Committee consists of not less than three members and a quorum is two members present in person or by video or audio conference. The Board should satisfy itself that at least one member of the Committee has recent and relevant financial experience; at least one member of the Committee has competence in accounting and/or auditing; and that the Committee as a whole has competence relevant to the sector.
- b) Only members of the Committee have the right to attend Committee meetings. Other individuals such as other members of the Executive or Management team, or representatives from External Audit may be invited to attend as and when appropriate, and necessary. Internal Audit attend all meetings.
- c) The Committee may sub-delegate any or all of its powers and authorities as it thinks fit to one or more of its members or the Society Secretary, including, without limitation, the establishment of sub-committees which are to report back to the Committee.

### **3. Secretary**

- a) The Society Secretary or his or her nominee shall act as the Secretary of the Audit Committee.

### **4. Meeting Governance**

- a) The Committee shall meet for the despatch of business as often as it shall find necessary, with expectations of a minimum of 4 full and formal Committee meetings to coincide with key dates in the financial reporting and audit cycle. Additional meetings of the Committee may be held as and when required.
- b) The Secretary of the Committee shall call meetings in accordance with the schedule agreed. Additional meetings may be called by any Committee member or at the request of the Chief Executive, Finance Director, External Audit lead partner or a representative from Internal Audit.
- c) 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 five working days before the date of the meeting. Supporting papers shall be published on the Board portal for Committee members and emailed to other attendees as appropriate, at the same time.
- d) Meetings of the Committee may be conducted when the members are physically present together or by using the form of video and/or audio conferences. Meetings

are recorded via Microsoft Teams and are automatically deleted after a two month period.

- e) At each meeting, the Committee shall, review and evaluate any potential or actual conflict of interest of the Committee members.
- f) Questions arising at a meeting shall be resolved by a majority of votes and, in the case of equal votes, the Chairperson of the meeting shall have a second or casting vote.
- g) At least once a year, the Committee should meet with Internal and External Audit without the presence of Executive Directors and management.
- h) Written resolutions are permitted but must be undertaken in accordance with the requirements set out in the Society's Rules with written consent required from all Committee members for approval.

## **5. Minutes of meetings**

- a) The Secretary shall minute the proceedings of all meetings of the Committee, including recording the names of those present and in attendance.
- b) Draft minutes of the Committee meetings shall be circulated promptly to the Chairperson of the Committee. Once approved, minutes should be circulated to all other members of the Committee unless it would be inappropriate to do so.
- c) Final signed copies of the minutes of the meetings of the Committee should be maintained for the Society's records.

## **6. Responsibilities**

### **Financial Reporting**

- a) To review and monitor the integrity of the financial statements of the Society and any formal announcements relating to financial performance, including significant financial reporting judgements contained in financial reports and corporate governance issues in relation to the financial statements and reports of the Society.
- b) To advise the Board on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary to assess the Society's position and performance, business model and strategy.

### **Internal Control and Risk Management**

- c) To review reports from management and internal audit on the adequacy and effectiveness of the Society's internal financial controls and internal control and risk management systems, with sufficient focus on the delivery of good customer outcomes.
- d) To review and approve the statements to be included in the Annual Report concerning internal controls and risk management.

### **Internal Audit**

- e) To review and approve the Audit Strategy and Annual Audit Plan and ensure that Internal Audit is effective and adequately resourced.

- f) To oversee the independence and integrity of internal audit.
- g) To receive audit reports and to challenge both Internal Audit and Management on the content thereof.
- h) To instruct Internal Audit to carry out an audit or special review of any area of operations causing concern to the Committee.
- i) To ensure that Internal Audit has direct access to the Chairperson of the Board and to the Audit Committee and is accountable to the Committee and to meeting Internal Audit once a year without management being present.
- j) To review and monitor management's responsiveness to Internal Audit findings and recommendations.
- k) To monitor and assess the role and effectiveness of Internal Audit annually.
- l) To consider and make recommendations on the outsourcing of Internal Audit including appointment, reappointment and removal.
- m) To ensure that the Society follows the guidance on *Effective Internal Audit in the Financial Services Sector* (issued by the Chartered Institute of Internal Auditors in September 2017 and updated in 2021) as appropriate.

#### **External Audit**

- n) To oversee the Society's relations with the External Auditor, including approving the terms of engagement and remuneration.
- o) To consider and make recommendations on the appointment, reappointment and removal of the External Auditor.
- p) To assess annually the qualifications, expertise and resources, effectiveness and independence of the External Auditor.
- q) To meet External Audit once a year without management being present to discuss the auditor's remit and any issues arising from the audit.
- r) To consider, at the start of each annual audit cycle, the nature and scope of the audit, and whether appropriate plans and resources are in place for the audit.
- s) To review the audit representation letter and give particular consideration to any matters relating to non standard issues.
- t) To review the audit findings, including any major issues that arose during the course of the audit.
- u) To review and monitor the content of the External Auditor's management letter, and establish whether recommendations have been acted upon.
- v) To ensure compliance with the Board's normal policy that the External Auditor should not provide non audit services other than on an exceptional basis. Any proposals for the External Auditor to provide non audit services should be considered by the Committee to ensure that any such work does not compromise their independence or objectivity, before making a recommendation to the Board on whether to proceed. The approval process should cover the nature and scope of

the work, details of why the External Audit firm is the preferred supplier, appropriate confirmation from the External Audit engagement partner that the issue of independence has been considered, and details of fees (including comparison with the annual audit fee).

- w) To ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services of the incumbent auditor with those of other firms. The Committee will oversee the selection process arising out of the tender.

### **Regulation and Compliance**

- x) To consider and report to the Board the effect of any statutory, regulatory or financial reporting changes, or corporate governance issues, which may affect the content and presentation of the Society's accounts, its systems of control or any other matters relating to the way the Directors direct the Society.

## **7. Delegated Authority from Board**

- a) The Board has a formal schedule of matters that are reserved to it, and it has delegated authority to the Audit Committee, as detailed in the appendix to the Board Terms of Reference.
- b) In managing the authorities delegated to the Audit Committee, the Board shall receive from the Audit Committee Chair a report on proceedings after each meeting on key decisions and discussions within its duties and responsibilities.
- c) The Audit Committee Chair should perform a periodic assessment of whether responsibilities included in the Terms of Reference document have been achieved. The results of this exercise should be reported to the Board and appropriate action should be taken where it is identified that responsibilities have not been realised.
- d) The Committee is authorised to make whatever recommendations deemed appropriate on any area within its remit where action or improvement is needed.

## **8. Other Matters**

- a) Committee members are authorised to seek any information required from any employee of the Society in order to perform their duties.
- b) The Committee is authorised to obtain, at the Society's expense, external legal or other professional advice on any matter within its authority.
- c) Non-material changes to these Terms of Reference can be approved by the Chairperson and noted at the next meeting of the Committee.
- d) The Committee shall assist the Senior Management Function holder in the escalation of their Prescribed Responsibilities for the Committee in relation to:
- Prescribed Responsibility j – Responsibility for (a) safeguarding the independence of, and (b) overseeing the performance of, the internal audit function, in accordance with SYSC 6.2 (Internal audit).
  - Prescribed Responsibility x – If the firm outsources its internal audit function, responsibility for taking reasonable steps to ensure that every person involved in the performance of the service is independent from the persons who perform external audit, including (a) supervision and management of the work of

outsourced internal auditors and (b) management of potential conflicts of interest between the provision of external audit and internal audit services.

**Date of approval**  
June 2023