

SWANSEA
BUILDING SOCIETY

Established 1923

Terms of Reference Audit Committee

The Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, Reference No. 206066

Swansea Building Society

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Terms of Reference Audit Committee

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Terms of Reference

Membership

- 1 The committee shall comprise at least two members. Members of the committee shall be appointed by the board, on the recommendation of the nomination committee in consultation with the chairman of the audit committee.
- 2 All members of the committee shall be independent non-executive directors at least one of whom shall have recent and relevant financial experience. The chairman of the board shall not be a member of the committee.
- 3 Only members of the committee have the right to attend committee meetings. However, other individuals such as the chairman of the board, chief executive, finance director, other directors, the director of risk & compliance, representatives from internal audit and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 4 The external auditor will be invited to attend meetings of the committee on a regular basis.
- 5 Appointments to the committee shall be for a period of up to three years, which may be extended for further periods of up to three years, provided the director still meets the criteria for membership of the committee.
- 6 The board shall appoint the committee chairman who shall be an independent non-executive director. In the absence of the committee chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

Secretary

The society secretary or his or her nominee shall act as the secretary of the committee.

Quorum

The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the committee. In the event of the enforced absence of a designated committee member, the committee is given leave to co-opt another Non-Executive director to achieve Quorum.

Frequency of Meetings

The committee shall meet at least four times a year at appropriate times in the reporting and audit cycle and otherwise as required.

Notice of Meetings

- 1 Meetings of the committee shall be called by the secretary of the committee at the request of the members or at the request of the external or internal auditor if they consider it necessary.
- 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, any other person required to attend and all other non-executive directors, no later than three working 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.

Minutes of Meetings

- 1 The secretary shall minute the proceedings and decisions of all meetings, including recording the names of those present and in attendance.
- 2 Draft minutes of committee meetings shall be circulated promptly to all members of the committee. Once approved, minutes should be circulated to all other members of the board unless it would be inappropriate to do so.

Annual General Meeting

The committee chairman should attend the annual general meeting to answer member questions on the committee's activities.

Duties

The committee should carry out the duties below for the Society as appropriate.

- 1 **Financial Reporting**
 - (i) The committee shall monitor the integrity of the financial statements of the society, including its annual and half-yearly reports, interim management statements, and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain.
- (ii) In particular, the committee shall review and challenge where necessary –
 - a) The consistency of, and any changes to, accounting policies both on a year on year basis and across the Society;
 - b) The methods used to account for significant or unusual transactions where different approaches are possible;
 - c) Whether the Society has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - d) The clarity of disclosure in the Society's financial reports and the context in which statements are made; and
 - e) All material information presented with the financial statements, such as the business review/operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).
 - f) The appropriateness of the going concern and viability statement to be made by the board.
- 2 **Internal controls and risk management systems**

The committee shall

 - (i) Keep under review the adequacy and effectiveness of

- the society's internal financial controls and internal control and risk management systems; and
- (ii) Review and approve the statements to be included in the annual report concerning internal controls and risk management.
- (iii) Consider the level of assurance provided on internal control systems and financial controls.
- (iv) Receive a report annually from the Whistleblowing Champion and review the adequacy and security of the Society's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

- management or other restrictions.
- (v) Review and assess the annual internal audit plan.
- (vi) Review reports addressed to the committee from the internal auditor.
- (vii) Review and monitor management's responsiveness to the findings and recommendations of the internal auditor.
- (viii) Meet regularly with the internal auditor, at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the internal auditor shall be given the right of direct access to the chairman of the board and to the committee.
- (ix) Review and monitor the performance of the outsourced internal auditors.
- (x) Consider and make recommendations to the board in relation to the appointment, re-appointment and removal of the society's internal auditor. Ensure that, at least every 10 years, the internal audit services contract is put out to tender to enable the Committee to assess and compare the quality and effectiveness of the services of the incumbent auditor with those of other firms. The committee shall oversee the selection process for a new auditor and if an auditor resigns the committee shall investigate the issues leading to this and decided whether any action is required.

3 Internal audit

The committee shall

- (i) Monitor and review the effectiveness of the Society's outsourced internal audit function in the context of the society's overall risk management system.
- (ii) Approve the appointment and removal of the internal auditor
- (iii) Consider and approve the remit of the outsourced internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The committee shall also ensure the function has adequate standing and is free from

4 External Audit

The committee shall

- (i) Consider and make recommendations to the board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the society's external auditor. Ensure that, at least every 8 years, the external audit services contract is put out to tender with a view to the new auditor being appointed for the 10th year, to enable the Committee to assess and compare the quality and effectiveness of the services of the incumbent auditor with those of other firms. The committee shall oversee the selection process for a new auditor and if an auditor resigns the committee shall investigate the issues leading to this and decide whether any action is required.
- (ii) Oversee the relationship with the external auditor including (but not limited to)
 - a) Recommendations on their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted.
 - b) Approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit.
 - c) Assessing annually their independence and objectivity taking into account relevant (UK) professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services.
- (d) Satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Society (other than in the ordinary course of business).
- (e) Agreeing with the board a policy on the employment of former employees of the Society's auditor, then monitoring the implementation of this policy.
- (f) Monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the society compared to the overall fee income of the firm, office and partner and other related requirements.
- (g) Assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures.
- (h) Seeking to ensure co-ordination with the activities of the internal audit function.
- (iii) Meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The committee shall meet the external auditor at least once a year, without management being present, to discuss the auditor's remit and

- any issues arising from the audit.
- (iv) Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
- (v) Review the findings of the audit with the external auditor. This shall include but not be limited to, the following
 - a) A discussion of any major issues which arose during the audit
 - b) Any accounting and audit judgements
 - c) Levels of errors identified during the audit
 - d) The effectiveness of the audit

The committee shall also

- (vi) Review any representation letter(s) requested by the external auditor before they are signed by management.
- (vii) Review the management letter and management's response to the auditor's findings and recommendations.
- (viii) Develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

on its activities to be included in the Society's annual report.

Other matters

The committee shall

- 1 Have access to sufficient resources in order to carry out its duties, including access to the society secretariat for assistance as required.
- 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.
- 3 Give due consideration to laws and regulations, the provisions of the Code and any other applicable Rules, as appropriate.
- 4 Be responsible for co-ordination of the internal and external auditors.
- 5 Oversee any investigation of activities which are within its terms of reference.
- 6 Arrange for periodic reviews of its own performance and, 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

Reporting Responsibilities

- 1 The committee chairman shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 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.
- 3 The committee shall produce a report

Authority

The committee is authorised

- 1 To seek any information it requires from any employee of the Society in order to perform its duties.
- 2 To obtain, at the Society's expense, outside legal or other professional advice on any matter within its terms of reference.

- 3 To call any employee to be questioned at a meeting of the committee as and when required.
- 4 To have the right to publish in the Society's annual report details of any issues that cannot be resolved between the committee and board.

