



**2020**

**AUDIT AND COMPLIANCE COMMITTEE (ACC)  
TERMS OF REFERENCE**

**Approved by ACC**

**July 2020**

**Next review July 2021**

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## CONSTITUTION

The Audit and Compliance Committee ('ACC') is constituted as a Committee of the Board of the Hanley Economic Building Society (The Society).

The Committee may from time to time investigate, discuss or review matters outside its terms of reference if required to do so by the Board.

## AUTHORITY

The Committee is authorised by the Board to investigate any activity within its terms of reference and is authorised to –

- Seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
- Obtain external legal or other professional advice and to secure the attendance of anyone it considers has relevant experience, expertise or knowledge.

## PURPOSE

The purpose of the Audit and Compliance Committee is to:

- Keep under review the adequacy and effectiveness of the Society's internal systems and controls, including compliance with the requirements of both the Prudential Regulation Authority and the Financial Conduct Authority.
- Monitor and review the financial reporting process, risk management systems and the effectiveness of the Internal Audit and Compliance functions.
- Ensure an independent and effective External Audit process, and make recommendations to the Board on the appointment and removal of the External Auditors. The Committee also provide an interface between management and external audit.
- Monitor significant regulatory issues affecting the Group, noting any material compliance/regulatory breaches to the Board.
- Provide a source of assurance to the Board.

## MEETINGS AND MEMBERSHIP

### CHAIR

The Chair of the Committee is appointed by the Board and holds SMF11. The chair of the Audit Committee has responsibility for chairing, and overseeing the performance of any committee responsible for the oversight of the internal audit system of the Society.

### MEMBERSHIP

A minimum of three independent Non-Executive Directors of the Society will be appointed to the Committee. If the Society Chairman is on the Committee, he cannot chair the meeting.

### ATTENDANCE

Members of the senior management team and other Non-Executive Directors may attend at the request of the Committee.

The Internal Auditor shall attend the meeting as required.

The Group's External Auditors shall also attend as required.

## QUORUM

A meeting of the ACC will be quorate if two Non-Executive Directors are present. If the Chair cannot attend, the remaining members shall elect one of themselves to chair the meeting.

## FREQUENCY OF MEETINGS

The Committee shall meet on a quarterly basis. The Committee may meet in addition to scheduled meetings.

## SECRETARY

The Leadership Team PA is the Secretary of the meeting. In advance of the meeting, papers will be collated and circulated to members at least 4 calendar days prior to the meeting.

## MINUTES

Minutes of the Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to those required to be in attendance, the Board and the Group's External Auditors (when appropriate).

## REPORTING

The Chair will provide a verbal update to Board on a quarterly basis. The formal minutes are submitted at the subsequent Board meeting.

## RESPONSIBILITIES

### ANNUAL REPORT AND ACCOUNTS

The Committee should review, agree and recommend for approval to the Board the Society's –

- Annual Report and Accounts (taking into account, where applicable, any findings and conclusions of the Financial Reporting Council Limited pursuant to Article 26(6) of the Statutory Audit Regulation).
- Summary Financial Statement (taking into account, where applicable, any findings and conclusions of the Financial Reporting Council Limited pursuant to Article 26(6) of the Statutory Audit Regulation).
- Going Concern Paper, and
- Pillar 3 Disclosure.

### FINANCIAL REPORTING

- Monitor and review significant accounting policies and judgements.
- Review the Society's internal financial controls, internal control and risk management system.
- Review, agree and recommend for approval to the Board the Mortgage Loss Provisioning Policy Statement.
- Review and challenge where necessary the actions and judgements of management in relation to the Society's financial statements, operating and financial review before submission to and approval by

the Board and before clearance by the auditors.

### WHISTLEBLOWING AND FINANCIAL CRIME

- Review, agree and recommend for approval to the Board the Fraud Risk Management Policy Statement and Whistleblowing Policy Statement.
- Review the Society's systems and controls for the detection of fraud, crime (including cyber-crime) and for the prevention of bribery.
- Review regular reports from the Money Laundering Reporting Officer on the adequacy and effectiveness of the Society's anti-money laundering systems and controls.

### INTERNAL AUDIT

- Monitor and review the appropriateness, independence and effectiveness of Group Internal Audit, ensuring all works comply with the Standards for Professional Practice of Internal Auditing of the Institute of Internal Audit.
- Review and approve the Annual Audit Plan and the Internal Audit Charter, having due regard to those areas covered by Compliance to ensure that key control areas are appropriately covered by reference to the Group's and Committee's assessment of key risks.
- Review and approve the Audit budget, ensuring it is appropriate to deliver the required level of Internal Audit assurance.
- Receive and consider the findings of Internal Audit reports on a quarterly basis.
- Review and monitor management's responses to Internal Audit's findings and recommendations, particularly focusing on 'High' and 'Extreme' risks.
- Meet with the Chair of ACC, at least annually, with the Chief Internal Auditor, in private.
- Receive, on behalf of the Board, the Internal Auditor's annual confirmation relating to Governance, Risk and Controls.

### EXTERNAL AUDIT

- Make recommendations to the Board concerning the appointment, re-appointment or dismissal of the External Auditors; any such recommendations to be put to the members for their approval in general meeting, and to approve the remuneration and terms of engagement of the External Auditors.
- Oversee the selection process for a new External Auditor.
- Inform the Board of the outcome of the statutory audit and explain how the statutory audit contributed to the integrity of financial reporting and what the role of the Audit Committee was in that process.
- Review and monitor the External Auditor's independence, objectivity and the effectiveness of the audit process in accordance with Statutory Audit Regulation.
- Discuss with the External Auditor, before any audit commences, the nature and scope of the audit.
- Review, approve and monitor the External Audit Plan.
- Meet the External Auditor, at least once a year, without management being present, to discuss any issues arising from the audit or any other matters the External Auditor may wish to raise.
- Consider External Audit letters of comment, arising from their Interim or Final Audit and the relevant management responses.

- Monitor and review the effectiveness of the External Audit function and management responses to the recommendations made.

## COMPLIANCE

- Monitor arrangements for, and the achievement of, compliance with statutory and other requirements, governance and financial reporting.
- Review, agree and recommend for approval to the Board the Compliance Operating Policy Statement and Compliance Monitoring Plan.
- Receive and review the quarterly Compliance Department report, including the recommendations from its monitoring programme.
- Review and recommend for approval by the Board the annual report of the Anti-Money Laundering Officer's Report and any periodic reports that the Anti-Money Laundering Officer considers necessary.
- Review and monitor management's responsiveness to Compliance monitoring findings and recommendations, particularly focusing on High or Extreme risks.

## GENERAL

- Maintain awareness of evolving best practice on Corporate Governance in relation to the Audit Committee and make recommendations to the Board for change, where appropriate.
- Ensure that relevant training in financial reporting and regulatory matters, both on joining the Committee and on an ongoing basis, are undertaken to ensure that sufficient challenge is provided by members of the Committee.
- Monitor the effectiveness of the Society's internal quality control and risk management system.
- Review on an annual basis both the effectiveness of the Committee in meetings its objectives and its Terms of Reference.
- Review at least annually the Committee's Terms of Reference, with agreed changes presented to the Board for approval.
- Meetings will be held at least 4 times a year and coincide with key dates in the Society's financial reporting cycle. Additional meetings may be held as required as can be called by The Chair, Chairman or CEO.

## ANNUAL REPORT TO THE BOARD

The committee should produce a report annually on how the Committee has discharged its responsibilities and the report should include:

- The significant issues that the Audit Committee considered relating to the financial statements, and how these issues were addressed;
- An explanation of how it 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;
- In the case of a board not accepting the Audit Committee's recommendation on the external auditor appointment, reappointment or removal, a statement from the Audit Committee is required, explaining its recommendation and the reasons why the board has taken a different position (this should also be supplied in any papers recommending appointment or reappointment);

- Where there is no internal audit function, an explanation for the absence, how internal assurance is achieved, and how this affects the work of external audit; and
- An explanation of how auditor independence and objectivity are safeguarded, if the external auditor provides non-audit services.