

BOARD AUDIT COMMITTEE **TERMS OF REFERENCE**

1. Authority

The Board has established a committee to be known as the Board Audit Committee (BAC) to assist it in fulfilling its oversight responsibilities relating to accounting, financial reporting and internal control. The BAC has the delegated authority of the Board in respect of the functions and powers set out in these terms of reference and is authorised by the Board to obtain, at the Society's expense, outside legal or other professional advice on any matters within its terms of reference. The BAC is authorised by the Board to investigate any activity within its Terms of Reference, seek any information it requires from any employee and all employees are directed to co-operate with any reasonable request made by the BAC. The BAC is authorised to commission internal investigations should it consider this appropriate.

2. Purpose

The role of the BAC is to oversee and provide assurance to the Board over:

- The integrity of the Society's financial reporting and statements.
- The effectiveness of the Society's internal controls and risk management systems, including those relating to probity.
- The internal and external audit processes.

3. Meetings and membership

Chair	The BAC will be chaired by a Non-Executive Director (other than the Chair of the Board) as appointed from time to time by the Board on the recommendation of the Nominations & Governance Committee.
Membership	The BAC will comprise the BAC Chair, the BRC Chair and at least two other Non-Executive Directors (except for the Chair of the Board). The BAC may operate with a vacancy. Members of the BAC shall be appointed by the Board on the recommendation of the Nominations & Governance Committee in consultation with the Chair of the BAC. At least one member of the BAC should have recent and relevant financial experience with a professional qualification from one of the professional accountancy bodies. The BAC as a whole should have competence relevant to the financial services sector.
Attendance	The Chief Executive, Chief Financial Officer, Chief Risk Officer, External Audit Partner and the Chief Internal Auditor will attend meetings of the BAC. Any other employee of the Society may be asked to attend meetings as required. Directors (both Executive and Non-Executive) who are not members or regular attendees of the BAC may also attend meetings if they so wish. Exceptionally the Committee may at the request of any member and the approval of the Chair decide to have a meeting without Management present. The Committee will also periodically meet with the External Auditor and the Chief Internal Auditor without Management present. It will also periodically meet with Management without the External Auditors being present.
Frequency	Meetings shall be held not less than four times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required. The Chair of the BAC may convene meetings of the BAC at any time to consider any matters falling within these terms of reference. Outside of the formal meeting programme, the Chair will maintain a dialogue with key individuals involved in the Society's governance, including the Board Chair, the Chief Executive, the Chief Financial Officer, the external audit lead partner and the Chief Internal Auditor.

Quorum	Meetings of the BAC will be quorate if there are present at least two BAC members. If the Chair of the BAC is absent at any meeting, another BAC Member shall be nominated by the Chair of the BAC to chair the meeting. If the Chair of the BAC is unable to make such a nomination the BAC members present will elect one of their number to chair the meeting.
Secretary	The Society Secretary or their nominee shall be the Secretary of the BAC.
Meeting preparation	The Secretary of the BAC shall draft the agenda for each meeting and provide this to the Chair of the BAC for approval in advance of the meeting. The Secretary of the BAC shall collate the papers and issue them to all attendees at least six days prior to the meeting.
Reporting	Formal minutes of the meetings of the BAC will be taken and circulated to members and other regular attendees for the relevant meeting. A summary of each meeting will be made available to the Board of Directors in the month following the meeting, together with an update on any other matter which the Board has requested the opinion of the BAC. The Chair of the BAC will be available at the Society's AGM to answer questions from members falling within the BAC's remit.

4. Duties

The BAC shall have the following responsibilities:

4.1. Financial reporting

- 4.1.1. Monitor the integrity of the Society's financial statements, including the annual and interim reports, summary financial statement, and Pillar III disclosures performance. In particular:
 - 4.1.1.1. Review and report to the Board on any significant financial reporting matters and estimates and judgments made in connection with such statements and how these were addressed.
 - 4.1.1.2. Assess and challenge the clarity and completeness of disclosures in the Society's financial statements, including the Annual Report and Accounts and the Interim Financial Statement and consider whether the disclosures, including the viability and going concern statements, to be made by the Board are supported by appropriate evidence.
 - 4.1.1.3. Consider whether the Society has adopted appropriate accounting standards and policies and, where necessary, made appropriate estimates and judgments, taking into account the views of the external auditor.
 - 4.1.1.4. Review and challenge where necessary the methods used to account for significant or unusual transactions where alternative accounting treatments are permissible.
 - 4.1.1.5. Review and monitor any significant adjustments and non-adjusted items arising from the audit including in connection with non-adjusted items.
 - 4.1.1.6. Advise the Board on whether it is appropriate for the Society to adopt the going concern basis of accounting and whether there are any material uncertainties to the Society's ability to continue to do so over at least the next 12 months from the date of approval of the financial statements.
 - 4.1.1.7. 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 shareholders 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 are required under the Corporate Code.
 - 4.1.1.8. Oversee external disclosures relating to sustainability and the Society's management of the financial risks arising from climate change.

4.2. Accounting Matters

- 4.2.1. Review and challenge where necessary the significant accounting policies, accounting

standards and practices adopted by the Society and any changes to them.

4.3. Internal controls and risk management systems

- 4.3.1. Review annually reports from the Internal Audit function regarding its assessment of the adequacy and effectiveness of the Society's systems of internal control and risk management including emerging and principal risks and uncertainties including internal financial controls.
- 4.3.2. Receive assurance that the Society's internal financial controls systems that identify, assess, manage and monitor financial risks and other internal control and risk management systems are effective.
- 4.3.3. Review and approve the statements to be included in the Annual Report & Accounts concerning internal control, and risk management, including the assessment of principal risks and emerging risks and the viability statement prior to approval by the Board.
- 4.3.4. Receive assurance that risk management and internal control systems including internal financial controls are operating effectively.

4.4. Internal audit

- 4.4.1. Approve and review the appointment and removal of the Chief Internal Auditor.
- 4.4.2. Review and approve the Internal Audit function's role and mandate and annually approve the Internal Audit Charter ensuring it is appropriate for the current needs of the Society.
- 4.4.3. 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 the Risk Function (including the Compliance Function), the Finance Function and the external auditor.
- 4.4.4. Ensure that the Chief Internal Auditor has direct access to the Chair of the Board, an independent reporting line to the Chair of the BAC and is accountable to the BAC.
- 4.4.5. Receive reports from the Chief Internal Auditor, together with findings and recommendations for improvement on work carried out and ensure the Board is made aware of significant issues.
- 4.4.6. Monitor and review management's responsiveness to the Internal Audit function's findings and recommendations.
- 4.4.7. Commission an independent, third party review of the effectiveness and processes of the Internal Audit Function at least every five years.
- 4.4.8. Review and approve the internal audit plan and ensure that Internal Audit Function has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with relevant professional standards.

4.5. External audit

- 4.5.1. Maintain regular open dialogue with the External Auditors, ensuring the External Auditors report all relevant matters to enable the BAC to discharge its responsibilities. Monitor the Society's overall relationship with its External Auditor and between the External Auditor and the Internal Audit, Risk and Finance Functions.
- 4.5.2. Review and make recommendations to the Board, to be put to members for approval at the Annual General Meeting, in relation to the appointment, reappointment and removal of the External Auditors.
- 4.5.3. Develop and oversee the selection procedure for the appointment of the audit firm in accordance with applicable Corporate Code and regulatory requirements, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process.
- 4.5.4. Approve the External Auditor's remuneration, including both fees for audit and non-audit services, and other terms of engagement of the External Auditors and ensure that the level of fees are not excessive but are appropriate to enable an effective and high quality audit to be conducted.
- 4.5.5. Monitor the level of fees paid by the Society to the external auditor compared to the overall fee income of the external auditor, office and partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standard.
- 4.5.6. Approve the External Auditor's terms of engagement, including any engagement letter

issued at the start of each audit and the scope of the audit.

- 4.5.7. Discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan including the materiality assessment and ensure it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team.
- 4.5.8. Review the findings of the audit with the External Auditor including a discussion about any major issues which arose during the audit, how risks to audit quality were addressed, key accounting and audit judgements, the External Auditor's view of their interactions with senior management, levels of errors identified in the audit and the effectiveness of the audit process overall (which shall include a report from the external auditor on their own internal quality procedures). The review of effectiveness of the external audit process should include an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the committee.
- 4.5.9. The Committee will meet the external auditor at least once a year, without management being present, to discuss the external auditor's remit and any issues arising from the audit. The Committee should also meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit and the reporting stage).
- 4.5.10. Assess the independence, objectivity, qualifications, expertise and resources of the External Auditor, 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 safeguards applied to mitigate those threats including the provision of any non-audit services.
- 4.5.11. 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.
- 4.5.12. 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.
- 4.5.13. If the external auditor resigns, investigate the issues giving rise to the resignation and consider whether any action is required.
- 4.5.14. Agree and monitor the Society's policies on:
 - the employment of former employees of the external audit firm, taking into account the Ethical Standard and legal requirements.
 - the engagement of the External Auditor to supply non-audit services, including the approval of non-audit services.
- 4.5.15. The policy on the provision of non-audit services should include consideration of the following:
 - Threats to the independence and objectivity of the external auditor and any safeguards in place;
 - the nature of the non-audit services;
 - whether the external audit firm is the most suitable supplier of the non-audit service;
 - the fees for the non-audit services, both individually and in aggregate, relative to the audit fee;
 - the criteria governing compensation.
- 4.5.16. Review audit representation letters and recommend their signing to the Board and review the management letters issued by External Auditors and the management responses to them, prior to reporting on these matters to the Board.
- 4.5.17. The Society should satisfy itself that there are no relationships between the auditor and the Society (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity.
- 4.5.18. Seek to ensure coordination of the external audit with the activities of the Internal Audit Function.
- 4.5.19. Evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee.

4.6. Whistleblowing, fraud and bribery

- 4.6.1. Oversee the Society's whistleblowing procedures and policies, assess their effectiveness and reviewing a report on the effectiveness of whistleblowing procedures

on an annual basis prior to submission to the Board.

- 4.6.2. Ensure that any such whistleblowing matter is properly investigated as required under the Society's Whistleblowing Policy and relevant regulatory requirements.
- 4.6.3. Receive reports on the Society's procedures for detecting fraud and its systems and controls for the prevention of bribery, including instances of non-compliance and assessing the effectiveness of such arrangements.
- 4.6.4. Receive and consider reports relating to the operation of the Gifts and Hospitality Policy and Expenses Policy.

4.7. Other matters

- 4.7.1. Maintain a good awareness of, and the impact of, developments in financial reporting, accounting standards, statutory and regulatory requirements (including applicable Consumer Duty obligations) and corporate governance updates, pertinent to the duties and responsibilities of the Committee.
- 4.7.2. Review and approve the Society's Tax Strategy and Tax Policy.
- 4.7.3. Review and approve the Society's reporting under the Non-Financial Audit Reporting Directive.
- 4.7.4. Consider other topics, as defined and delegated by the Board.

4.8. Reporting and Disclosures

- 4.8.1. The BAC shall compile a report detailing how it discharged its responsibilities for inclusion in the Society's Annual Report & Accounts. In particular this report will cover:
 - 4.8.1.1. The significant issues that BAC considered and how they were addressed;
 - 4.8.1.2. BAC's assessment of the effectiveness of the external audit process;
 - 4.8.1.3. BAC's view of the effectiveness of the External Auditor and Internal Audit function;
 - 4.8.1.4. An explanation of how BAC assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the External Auditor;
 - 4.8.1.5. Details of the length of tenure of the existing External Auditor, when a tender was last conducted and advance notice of any retendering plans; and
 - 4.8.1.6. An explanation of how auditor independence and objectivity are safeguarded if the external auditor provides non-audit services.

4.9. Performance Review

- 4.9.1. To arrange annual assessments of BAC effectiveness and report the outcome of this activity to the Board.
- 4.9.2. To review periodically these Terms of Reference and recommend any changes to the Board for approval.

These terms of reference were approved by the Board Audit Committee on 12 December 2023 and by the Board on 24 January 2024.