

# Board Audit Committee Terms of Reference

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## 1. Purpose

The Nottingham's Board Audit Committee (the Committee) is a Committee of the Board of Directors, responsible for reviewing and monitoring the integrity of The Nottingham's financial statements, internal and external audit functions, and internal control systems in line with the Board's role of ensuring best practice in corporate governance and reporting to the Board of the Nottingham

## 2. Scope

This Committee's remit covers The Nottingham, comprising The Nottingham Building Society and its subsidiary companies Nottingham Property Services Limited, Nottingham Mortgage Services Limited, Harrison Murray Limited and HM Lettings Limited.

The special purpose vehicle (SPV), Arrow Mortgage Finance No. 1 Limited, is funded through loans from the Society and is fully consolidated into the Society's financial statements. The issued share capital of the SPV is held entirely by Intertrust Corporate Services Limited on a discretionary trust basis. Therefore Arrow Mortgage Finance No 1 Limited has independent directors and as a consequence, the entity is out of scope for the approval of the financial statements. However the SPV entity is within the Group's scope from an underlying control, judgemental accounting and consolidation into Group results perspective.

## 3. Composition

The Board Audit Committee is currently composed of the following members/attendees:

Role and SMF	Status	Deputy
Non-Executive Director Chair	Member	Non-Executive Director
Non-Executive Director	Member	N/A
Non-Executive Director	Member	N/A
Chief Executive	Non-voting attendee	N/A
Finance Director	Non-voting attendee	N/A
	Non-voting attendee	N/A
Head of Internal Audit	Non-voting attendee	N/A
Representative from External Audit	Non-voting attendee	N/A

Role and SMF	Status	Deputy
Chief Risk Officer	Non-voting attendee	N/A
General Counsel	Non-voting attendee	N/A
Company Secretary	Secretary	N/A

The Chair of the Committee shall be appointed by the Board from amongst the Non-Executive Directors upon the recommendation of the Nominations Committee.

The Committee shall comprise a minimum of three Non-Executive Directors. The Chairman of the Society shall not be a member.

At least one member of the Committee, ideally the Chair, shall have adequate relevant financial experience.

No one other than the Committee Chair, members and regular attendees are entitled to be present at a meeting of the Committee, but any member of the Committee may petition the Chair for inclusion of specific individuals to attend a meeting.

All new members of the Committee will be informed of their responsibilities, the role of the Committee and provided support and training where deemed necessary by the Chair, or person appointed by the Chair to ensure they are able to discharge their responsibilities effectively.

#### **4. Quorum**

The Quorum shall be two members and must include the Chair or Deputy Chair.

Quorum requirements should be reviewed annually to reflect any changes in committee membership or roles and responsibilities. A meeting can only be deemed quorate if all voting members have been invited to attend.

#### **5. Meeting Frequency**

The Committee will meet on a minimum of four occasions per annum, with output feeding into the subsequent Board Meeting.

Members of the Committee may also request additional meetings following consultation with the Chair, where appropriate if the Rapid Decision Protocol is not deemed adequate.

#### **6. Rapid Decision Protocol**

The purpose of the Rapid Decision Protocol is to facilitate decision making outside of the scheduled meetings. Any use of the Rapid Decision Protocol must be agreed with the Chair of the Committee (or in their absence, the Deputy Chair) prior to its use, and circulated by the Committee Secretary (or in their absence, the nominated deputy).

Any decisions or approvals made using this protocol are to be submitted to the next scheduled committee meeting, accompanied by a summary of events and the final decision, for inclusion in the minutes

## 7. Authority

**The Delegation from the Board:** The Committee is authorised by the Board to investigate any activity within its Terms of Reference.

The Committee requires the cooperation of every member of the Society's Executive and staff, as appropriate, in helping it to discharge its duties.

The Board Audit Committee is authorised by the Board to take such independent external legal, accounting or other professional advice and training as it considers necessary, at the Society's expense.

### 7.1. Exceptions

The Committee will review and approve exceptions to policy under its authority as prescribed by the specific policy in question (see section 8 below).

Policy dispensations are submitted in writing to the Committee for approval, stating:

- The relevant policy or specific requirement(s) for which the dispensation is being requested
- What is being done instead of following the policy (i.e. the variation)
- An impact assessment of the dispensation
- The requested time period for the dispensation

Policy breaches or agreed exceptions are to be reported to the Committee through the relevant management information report as prescribed by the policy in question.

### 7.2. Voting

Each member of the Committee is entitled to a single vote, which can be cast either in person at the meeting, or by email prior to the meeting addressed to the Chair of the Committee.

Approval requires a simple majority. In the event of an even split vote, the Chair or acting deputy has the option to exercise a casting vote. Committee members may not delegate their vote to a deputy, and invited guests attending the committee are not entitled to vote.

## 8. Approvals and Responsibilities

### 8.1. Approvals

The following documents are submitted to the Committee for approval at the prescribed frequency.

Responsibility	Details
Annual Internal Audit Plan	Approve the Annual Internal Audit Plan and Internal Audit Budget.
Engagement of External Auditors for non-audit services	Approve the Policy on Engagement of External Auditors to supply non audit services.
Compliance with Accounting Standards	Approve significant changes in the Nottingham's accounting policies and judgemental accounting assumptions
Internal Operations Audit and Effectiveness	<p>To approve the risk assessment processes performed in scoping internal audit activity each quarter, and on an annual basis, Internal Audit Plan for the year.</p> <p>To approve the appointment or termination of employment of the Head of Internal Audit, and to assess on a regular basis, the ongoing suitability of the Head of Internal Audit for the role.</p>
External Operations Audit and Effectiveness	Approve a policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and the employment of the external auditors former employees. To monitor compliance with that policy and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

### Recommendations for Approval

The following documents are for review and recommendation to the Board for approval.

Responsibility	Details
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Responsibility	Details
Compliance with Accounting Standards	<p>To review the Annual Report and Accounts, and Interim Financial Report for compliance with the applicable accounting standards before their submission to the Board for approval. Where requested by the Board, the Audit Committee should provide advice on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Society's position and performance, business model and strategy.</p> <p>Review formal announcements relating to the Society's financial performance prior to submission to the Board for approval.</p> <p>Review and recommend to the Board for approval the Summary Financial Statements and Pillar 3 disclosure document.</p>
External Audit Operations and Effectiveness	<p>To make recommendations to the Board, for it to put to the members for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditor.</p> <p>The Society should put the external audit contract out to tender at least every ten years. If the Board does not accept the Audit Committee's recommendation, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the Audit Committee explaining the recommendation and should set out reasons why the Board has taken a different position.</p>
Other	To review the Committee's Terms of Reference prior to submission to the Board of Directors for approval.

## 8.2. Responsibilities

Compliance with Accounting Standards	To review the Nottingham's compliance with the applicable accounting standards.
Internal Controls	To review the adequacy and effectiveness of the systems of internal controls, risk management and governance.

<p>Internal Audit Operations and Effectiveness</p>	<p>To review progress against the Internal Audit Plan during the audit cycle.</p> <p>Review Head of Internal Audit Report tracking progress against the Annual Internal Audit Plan. Consider the findings of each audit report and review progress in implementation of agreed actions.</p> <p>To annually review the Internal Audit Charter.</p> <p>To conduct an annual review of the effectiveness of the internal audit department in the overall context of the Society's risk management framework, including consideration of the independence of internal audit.</p> <p>To ensure that the Internal Audit function is subject to an independent quality assurance review at least once every five years. This assessment should also include the work performed, the nature and timing of reports, the adequacy of resources, its independence and compliance with Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors.</p> <p>To work with the Executive Directors to promote the role of Internal Audit within the Society and emphasise the importance of a robust risk management, governance and control framework.</p> <p>In addition, the Chair of the Committee:</p> <p>is accountable for setting the objectives and undertaking the performance appraisals of the Head of Internal Audit, consulting with the Chief Executive and the Remuneration Committee as necessary.</p> <p>is responsible for recommending the remuneration of the Head of Internal Audit to the Remuneration Committee, consulting with the Chief Executive as necessary.</p>
<p>External Audit Operations and Effectiveness</p>	<p>Annually, to consider the scope and planning of the external audit including a review of the auditors' engagement letter.</p> <p>To review the nature and extent of cooperation between the external auditors and the Society's internal audit team and the reliance placed on its work.</p> <p>To review the findings and recommendations of the external auditors and the Society's response.</p> <p>To review the audit representation letter before acceptance by the Board.</p> <p>Annually to discuss with the external auditors their policies and processes with regard to relevant ethical and other regulatory requirements concerning the conduct of their work.</p> <p>To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements.</p> <p>At the end of the annual audit cycle, to assess the effectiveness of the external audit process and to confirm that no constraints have been encountered by them regarding the nature and extent of their audit work for any reason.</p>

Support Senior Manager Function	<p>Assist the Senior Manager Function (SMF) role holder in fulfilling the following Prescribed Responsibilities:</p> <p>(j)for safeguarding the independence of, and overseeing the performance of, the internal audit function, including the performance of a person approved to perform the Head of Internal Audit function on behalf of the firm, in accordance with SYSC 6.2 (Internal audit).</p> <p>(q) for the production and integrity of the firm’s financial information and its regulatory reporting under the regulatory system.</p> <p>(x) if the firm outsources its internal audit function, responsibility for taking reasonable steps to ensure that every person involved in the performance of that function is independent from the persons who perform external audit, including supervision of management of the work of outsourced internal auditors; and management of potential conflicts of interest between the provision of external audit and internal audit service.</p>
Other	To consider its own performance, noting its conclusions in a report submitted to the Nominations Committee.

## 9. Secretariat

The Company Secretary shall act as the Secretary for the Committee and be responsible for maintaining meeting minutes. The Secretary will ensure that all follow-up actions are appropriately assigned and monitored.

The Secretary will ensure that all items included within the Terms of Reference are covered as standard agenda items within Committee meetings with clear signposting of status and action for the Committee for each item. The Secretary in conjunction with the Chair and Head of Internal Audit shall draw up an agenda which shall be circulated prior to each meeting to each member of the Committee and to any other attendees.

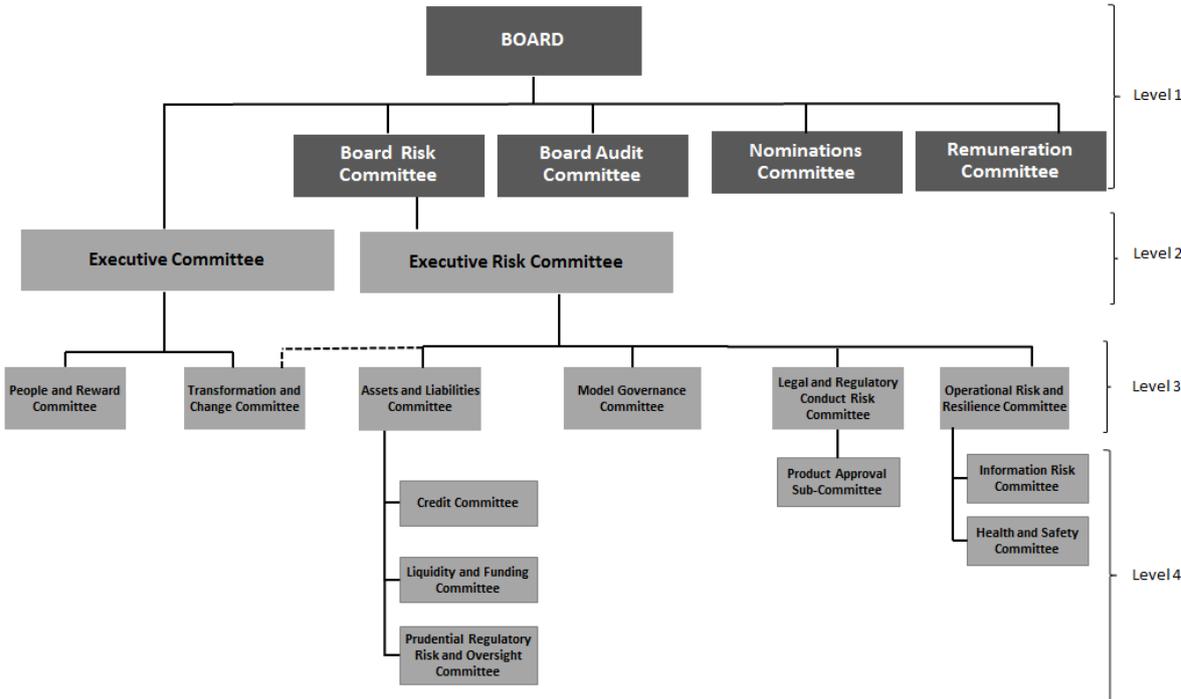
The Secretary shall be responsible for the collation and circulation of relevant reports to Committee Members and other attendees in sufficient time for papers to be reviewed.

An effectiveness review of the Committee will be performed annually, including a review of meeting content, terms of reference and composition, reporting its conclusions to the Society's Board of Directors.

## 10. Minutes

Committee decisions and discussions will be evidenced by minutes, after approval by the Chair will be circulated to the Committee members and nominated attendees in sufficient time to allow completion of the actions.

# 11. Organisation



## 12. Document Version History

Date	Author	Version	Notes
11.05.2016	I Skelton	V2016.1.0	Initial version developed by Governance and Risk Management working group.
17.05.2016	I Skelton	V2016.1.1	Board feedback incorporated.
30/10/2017	R Kolebuk	V2017.1.2	Updated to reflect ExCo and Annual Review
07/03/2019	S Bolton	V2019.1.3	Updated to reflect Corporate Governance Code and governance review