

# **Nottingham Building Society (“Society”)**

## **Board Audit Committee**

### **Terms of Reference**

#### **1.0 Membership**

- 1.1 The Committee shall comprise at least three members and, where possible, one member of the Remuneration Committee and one member of the Risk Committee. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chair of the Committee.
- 1.2 All members of the Committee shall be independent Non-Executive Directors at least one of whom shall have recent and relevant financial experience and with competence in accounting and/or auditing. The Chair of the Board shall not be a member of the Committee.
- 1.3 Only members of the Committee have the right to attend Committee meetings. However, the Chief Executive Officer, Chief Financial Officer, Director of Finance, Chief Risk Officer, Head of Internal Audit and External Audit lead will be invited to attend meetings of the Committee on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 1.4 The Board shall appoint the Committee Chair. In the absence of the Committee Chair at a Committee meeting, the remaining members present shall elect one of themselves to chair the meeting.

#### **2.00 Secretary**

The Society Secretary, or their nominee, shall act as the Secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

#### **3.00 Quorum and voting at meetings**

3.1 The quorum necessary for the transaction of business shall be two members. The quorum can comprise members of the Committee attending in person or by telephone or online. A meeting can only be deemed quorate if all voting members have been invited to attend.

3.2 Each member of the Committee is entitled to a single vote, which can be cast either in person at the meeting or verbally (if joining by telephone or online).

3.3 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. The minutes should reflect all Committee decisions, and specifically identify votes that are not unanimous.

#### **4.00 Frequency of meetings**

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

#### **5.00 Notice of meetings**

5.1 Meetings of the Committee shall be convened by the Secretary of the Committee at the request of any of its members or at the request of the External Audit lead partner or Head of Internal Audit if they consider it necessary.

5.2 Unless otherwise agreed by the Committee, 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 no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members at the same time.

#### **6.00 Minutes of meetings**

6.1 The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.

6.2 Draft minutes of Committee meetings shall be agreed with the Committee Chair and then circulated promptly to all members of the Committee and made available to the board at the next board meeting.

#### **7.00 Annual general meeting**

7.1 The Committee Chair should attend the Annual General Meeting to answer member questions.

#### **8.0 Rapid Decision Protocol**

8.1 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 nominated deputy)

prior to its use, and circulated by the Committee Secretary (or in their absence, the nominated deputy) to all members of the Committee.

8.2 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.

## **9.00 Duties**

The Committee should have oversight of the Society and its subsidiary undertakings (“Group”) as a whole and, unless required otherwise by regulation, carry out the duties below for each of the Society, and subsidiary undertakings together with the Group, as a whole.

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.

### **9.1 *Financial reporting***

9.1.1 The Committee shall monitor the integrity of the financial statements of the Society and the Group, including its annual and half-yearly reports, interim management statements, preliminary announcements, the financial and accounting elements of the Pillar 3 disclosure document and any other formal statements relating to its financial performance, and review and report to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor.

9.1.2 In particular, the Committee shall review and challenge where necessary:

9.1.2.1 The application of significant accounting policies and any changes to them;

9.1.2.2 The methods used to account for significant or unusual transactions where different approaches are possible;

9.1.2.3 Whether the Society has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor’s views on the financial statements;

9.1.2.4 the clarity and completeness of disclosures in the financial statements and the context in which statements are made; and

9.1.2.5 All material information presented with the financial statements, including the strategic report, the corporate governance statements relating to the audit and the climate related disclosures and Sustainability Report.

9.1.3 The Committee shall review any other statements requiring Board approval which contain financial information first, where to carry out a review prior to Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation.

9.1.4 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Society, it shall report its views to the Board.

## 9.2 *Narrative reporting*

The Committee should 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 members 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.

## 9.3 *Internal controls*

The Committee shall:

9.3.1 Keep under review the Society's internal financial controls systems that identify, assess, manage and monitor financial risks; and

9.3.2 Review and approve the statements to be included in the annual report concerning internal control, financial risk management and the viability statement.

## 9.4 *Fraud*

The committee shall:

9.4.1 Review the Society's procedures for detecting fraud; and

9.4.2 Review the Society's systems and controls for the prevention of bribery and receive reports on non-compliance.

## 9.5 *Internal Audit*

The Committee shall:

9.5.1 Approve the appointment or termination of appointment of the Head of Internal Audit;

9.5.2 Review and approve the role and mandate of Internal Audit, monitor and review the effectiveness of its work, and annually approve the Internal Audit charter ensuring it is appropriate for the current needs of the organisation;

9.5.3 Review and approve the annual Internal Audit plan to ensure it is aligned to the key risks of the business, and receive regular reports on work carried out;

9.5.4 Ensure Internal Audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions and that the Internal Audit function evaluates the effectiveness of these functions as part of its Internal Audit plan, and ensure that the Internal Audit function is equipped to perform in accordance with appropriate professional standards for Internal Auditors;

9.5.5 Ensure the Head of Internal Audit has direct access to the Board Chair and to the Committee Chair, providing independence from the executive and accountability to the Committee;

9.5.6 Carry out an annual assessment of the effectiveness of the Internal Audit function; and as part of this assessment:

9.5.6.1 Meet with the Head of Internal Audit without the presence of management to discuss the effectiveness of the function;

9.5.6.2 review and assess the annual Internal Audit work plan;

9.5.6.3 receive a report on the results of the Internal Auditor's work;

9.5.6.4 determine whether it is satisfied that the quality, experience and expertise of Internal Audit is appropriate for the business;

9.5.6.5 review the actions taken by management to implement the recommendations of Internal Audit and to support the effective working of the Internal Audit function;

9.5.6.7 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 finance and the external auditor; and

9.5.6.8 consider whether an independent, third party review of processes is appropriate.

## 9.6 *External Audit*

The Committee shall:

9.6.1 Consider and make recommendations to the Board, to be put to members for approval at the annual general meeting, in relation to the appointment, re-appointment and removal of the Society's external auditor;

9.6.2 Develop and oversee the selection procedure for the appointment of the external audit firm, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process;

9.6.3 If an external auditor resigns, investigate the issues leading to this and decide whether any action is required;

9.6.4 Oversee the relationship with the external auditor. In this context the Committee shall:

9.6.4.1 Approve their remuneration, including both fees for audit and non-audit services, and ensure that the level of fees is appropriate to enable an effective and high-quality audit to be conducted; and

9.6.4.2 Approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

9.6.5 Assess annually the external auditor's independence and objectivity taking into account relevant UK law, regulation, the applicable Ethical Standards and other professional requirements and the Group's relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services;

9.6.6 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;

9.6.7 Agree with the Board a policy on the employment of former employees of the Society's auditor, taking into account the applicable Ethical Standards and legal requirements, and monitor the application of this policy;

9.6.8 Monitor the auditor's processes for maintaining independence, its compliance with relevant UK law, regulation, other professional requirements and the applicable Ethical Standards, including the guidance on the rotation of audit partner and staff;

9.6.9 Monitor the level of fees paid by the Society to the external auditor compared to the overall fee income of the firm, office and partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the applicable Ethical Standards;

9.6.10 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;

9.6.11 Where appropriate, seek to ensure coordination of the external audit with the activities of the Internal Audit function;

9.6.12 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;

9.6.13 Develop and recommend to the Board the Society's formal policy on the provision of non-audit services by the auditor, including approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:

9.6.13.1 Threats to the independence and objectivity of the external auditor and any safeguards in place;

9.6.13.2 The nature of the non-audit services;

9.6.13.3 Whether the external audit firm is the most suitable supplier of the non-audit service;

9.6.13.4 The fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and

9.6.13.5 The criteria governing compensation;

9.6.14 Meet regularly with the external auditor and, at least once a year, meet with the external auditor without management being present, to discuss the auditor's remit and any issues arising from the audit;

9.6.15 Discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;

9.6.16 Review the findings of the audit with the external auditor. This shall include but not be limited to, the following:

9.6.16.1 A discussion of any major issues which arose during the audit;

9.6.16.2 The auditor's explanation of how the risks to audit quality were addressed;

9.6.16.3 Key accounting and audit judgements;

9.6.16.4 The auditor's view of their interactions with senior management;  
and

9.6.16.5 Levels of errors identified during the audit;

9.6.17 Review any representation letter(s) requested by the external auditor before they are signed by management;

9.6.18 Review the management letter and management's response to the auditor's findings and recommendations; and

9.6.19 Review the effectiveness of the audit process, including 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.

## **10.0 Reporting responsibilities**

10.1 The Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:



10.1.1 The significant issues that it considered in relation to the financial statements (required under paragraph 9.1.1) and how these were addressed;

10.1.2 Its assessment of the effectiveness of the external audit process, the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans; and

10.1.3 Any other issues on which the Board has requested the Committee's opinion.

10.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

10.3 The Committee shall compile a report on its activities to be included in the Society's annual report. The report should include an explanation of how the Committee has assessed the independence and effectiveness of the external audit and the significant issues the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor.

10.4 In compiling the reports referred to in 10.1 and 10.3, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Society is a going concern and the inputs to the Board's viability statement. The report to members need not repeat information disclosed elsewhere in the annual report and accounts but could provide cross-references to that information.

#### **11.0 Other matters**

The Committee shall:

11.1 Have access to sufficient resources in order to carry out its duties, including access to the Society secretariat for assistance as required;

11.2 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;

11.3 Give due consideration to relevant laws and regulations and any other applicable rules, as appropriate;

11.4 Be responsible for coordination of the Internal and external auditors;

- 11.5 Oversee any investigation of activities which are within its terms of reference;
- 11.6 Work and liaise as necessary with all other Board Committees, taking particular account of the impact of risk management and internal controls being delegated to different Committees; and
- 11.7 Arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference and recommend any changes it considers necessary to the Board.

**12.0 Authority**

The Committee is authorised to:

- 12.1 Seek any information it requires from any employee of the Society in order to perform its duties;
- 12.2 Obtain, at the Society's expense, independent legal, accounting, or other professional advice on any matter it believes it necessary to do so;
- 12.3 Call any employee to be questioned at a meeting of the Committee as and when required; and
- 12.4 Have the right to publish in the company's annual report, details of any issues that cannot be resolved between the Committee and the Board.