



# Leeds Building Society

## Leeds Building Society Audit Committee Terms of Reference

### **1. Constitution**

The Board has established a Board committee to be known as the Audit Committee (Committee), to support it in achieving its objectives and responsibilities. The Committee reports directly to the Board.

### **2. Membership**

The Committee membership shall consist of not less than three independent, Non-Executive Directors (NED) of the Society, at least one of whom shall have recent and relevant financial and accounting experience and at least one of whom shall be a member of the Board Risk Committee. The Committee as a whole shall have competence relevant to the financial services sector. The Society's Chair of the Board shall not be a member of the Committee.

The Chair of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee. In the absence of the Chair, the remaining members shall elect one of them to chair the meeting.

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 NED still meets the criteria for membership of the Committee.

Having consulted the Committee Chair, any Executive Director may attend the Committee meetings. The Chief Internal Auditor, a representative of the external auditors and members of the Senior Management Team shall attend meetings at the invitation of the Committee. The Committee can request any employee to attend a meeting, if required.

### **3. Quorum**

A quorum 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.

### **4. Frequency of meetings**

Meetings shall be held not less than five times a year and where appropriate, should coincide with key dates in the Society's financial reporting cycle. External auditors or internal auditors may request a meeting if they consider that one is necessary.

Outside of the formal meeting programme, the Committee Chair shall maintain a dialogue with key stakeholders, including the Chief Executive, the Board Chair, the Chief Finance Officer, the external audit lead partner and the Chief Internal Auditor.

### **5. Notice of Meetings**

Meetings of the Committee shall be scheduled annually in advance.

Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed and supporting papers shall be forwarded to each

member of the Committee and any other person required to attend, no later than 5 working days before the date of the meeting.

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

## **6. Minutes of Meetings**

The Secretary, or their nominee, shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance. Draft minutes of all Committee meetings shall be sent promptly to the Chair of the Committee and approved at the following Committee meeting. Committee minutes should be included in the Board pack for the next meeting unless, exceptionally, it would be inappropriate to do so. Where, due to timing, it is not possible to include the Committee minutes, a Key Points Summary for the Board is required.

## **7. Duties**

### **7.1 Internal Audit Effectiveness and Capability**

- a) Monitor and review the role and mandate of Internal Audit, in the context of the Society's overall risk management framework and annually approve the internal audit charter ensuring it is appropriate for the current needs of the Society;
- b) Monitor and review the effectiveness, standing and independence of the Society's Internal Audit function;
- c) Review and approve the audit planning methodology, audit delivery approach and annual audit plan, ensuring it is aligned to the Society's key risks and receives regular reports on work carried out;
- d) Receive reports from the Chief Internal Auditor, considering any on-going significant or prevalent issues and Management's response to the findings and recommendations;
- e) Ensure that the Internal Audit function has unrestricted scope, appropriate access to information, is adequately resourced, including skills and experience, commensurate with the risk of the organisation;
- f) Ensure the Chief Internal Auditor has direct access to the Board Chair and to the Committee Chair, providing independence from the Executive and accountability to the Committee.
- g) Oversee and approve the appointment process for an independent assessor, to conduct an independent assessment of the Internal Audit function as a whole, at least every five years;
- h) Approve the appointment and removal of the Chief Internal Auditor;
- i) Approve the annual Internal Audit department budget;
- j) Hold at least one private meeting a year with the Chief Internal Auditor, without Management being present; and

- k) The Committee to explicitly discuss annually, the Chair's assessment of the Chief Internal Auditor's independence and objectivity where tenure exceeds seven years.

## **7.2 Internal Control Effectiveness**

- a) Review the internal financial controls and internal control and risk management systems, unless expressly addressed by the Board Risk Committee composed of independent non-executive directors, or by the Board itself;
- b) Consider, through the receipt of regular reports, in particular the Risk and Control Self-Assessment (RCSA) outputs, the adequacy and effectiveness of the Society's internal financial controls and internal control and risk management systems. The Committee should satisfy itself these sources of assurance and information are sufficient and objective to enable the Board to satisfy itself that they are operating effectively;
- c) Seek to ensure co-ordination of the external audit with the activities of the Internal Audit function and review the effectiveness of corrective action taken by Management in response to any material external or Internal Audit recommendations;
- d) Receive and approve the Compliance Universe and plan (annual and periodic adjustments), to consider alongside the annual Internal Audit plan; and
- e) Receive an annual Compliance report, to consider alongside the annual Internal Audit report, management certifications and integrated RCSA outputs.

## **7.3 External Reporting**

- a) Monitor the integrity of the interim and annual financial statements of the Society and any formal announcements relating to the Society's financial performance, reviewing significant financial reporting judgements contained within them;
- b) Review and challenge where necessary, the actions and judgements of Management, in relation to the interim and annual financial statements, before submission to the Board;
- c) The Committee shall review and challenge where necessary:
  - (i) the application of significant accounting policies and any changes to them;
  - (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (iii) whether the Society has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on financial statements;
  - (iv) the clarity of disclosure in the financial reports and financial statements, the context in which statements are made and whether the statements, when taken as a whole are fair, balanced and understandable; and
  - (v) all material information presented with the financial statements.
- d) Form a view on the adequacy of provisions for commercial and residential mortgages, taking into account the Management Credit Committee's view on impaired non-arrears cases;
- e) Review and challenge where necessary the Pillar 3 disclosures before submission to the Board;

- f) Annually review and approve the Tax Risk Management Policy and the Financial Reporting & Disclosure Policy;
- g) Approve Standards which support the Committee's Policies, as appropriate, including the Pillar 3 Standards;
- h) Provide advice (where requested by the Board) on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary to assess the Society's position and performance, business model and strategy;
- i) Review the Viability Statement content in line with industry practice.

#### **7.4 External Audit Effectiveness and Capability**

- a) Consider and make recommendations to the Board, to be put to members for approval at the AGM, in relation to the appointment, re-appointment and/or removal of the external auditors;
- b) Monitor and review the external auditor's independence, objectivity and performance;
- c) Conduct the tender process and make recommendations to the Board about the appointment, reappointment and removal of the external auditor ensuring the regulatory requirements for contract renewal and partner rotation are met;
- d) Approve the auditors remuneration (audit and non-audit services), ensuring its appropriateness to deliver an effective and high quality audit and reviewing the level of fees paid in proportion to the overall fee income of the firm;
- e) Review and approve the auditor's engagement letter, for signing by the Chief Financial Officer, on behalf of the Board;
- f) Approve the nature and scope of the annual audit, including the annual audit plan, taking into consideration relevant UK professional and regulatory requirements and the qualifications, expertise and resources of the audit team. The assessment will cover all aspects of the audit service provided by the audit firm and include obtaining a report on the audit firm's own internal quality control procedures;
- g) Consider and challenge any findings, including key issues, areas of judgement or errors arising from the work performed;
- h) Approve written representations to explain the reasons for not adjusting misstatements to the accounts, brought to the Committee's attention by the external auditors;
- i) Where the external auditor resigns, investigate the issues giving rise to the resignation and consider whether any action is required;
- j) Approve the Standards on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard, and reporting to the Board on any improvement or action required;

- k) Undertake an annual assessment of the external auditor; and
- l) Hold at least one private meeting a year with the external auditors, without Management present.

### **7.5 Whistleblowing (Speak Up)**

- a) Review the independence, autonomy and effectiveness of the means for the workforce to raise concerns in confidence and, if they wish, anonymously. The review should consider any Speak Up reports, the arrangements for raising concerns, the proportionate and independent investigation of such matters and any follow-up action(s). Any Speak Up reports should be subsequently submitted to the Board for routine review.
- b) On an annual basis, review and recommend the Speak Up Standards to the Board for approval.

### **7.6 Governance**

- a) Maintain a good awareness of, and the impact of, developments in financial reporting, accounting standards and corporate governance, pertinent to the duties and responsibilities of the Committee.

## **8 Authority**

- a) Seek any information the Committee requires, from any employee of the Society including access to the Society Secretary for assistance, in order to perform its duties;
- b) Obtain, at the Society's expense, outside legal or independent professional advice and such advisers may attend meetings as necessary;
- c) Have the right to publish in the Annual Report and Accounts, details of any issues that cannot be resolved between the Committee and the Board; and
- d) The Committee may, from time to time, and acting in its absolute discretion, delegate any of the activities linked to its duties as set out within these Terms of Reference, but only to the holder(s) of a Senior Management Function under the Senior Managers and Certification Regime (as amended). Any delegated activities may at any time, be amended, revoked and/or otherwise modified by the Committee, acting in its absolute discretion.

## **9 Reporting Responsibilities**

- a) After each meeting, the Committee shall report to the Board regularly on its proceedings, on all matters within its duties and responsibilities;
- b) The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit; and
- c) The Committee shall produce a report of its activities, to be included in the Society's Annual Report and Accounts.

## 10 Other Matters

- a) Have access to sufficient resources in order to carry out its duties, including access to the Society's Secretariat or appropriate professional advisers, for assistance as required;
- b) Ensure that new and existing members of the Committee receive appropriate training in all aspects of their Committee responsibilities, including financial reporting, governance, regulation and internal control;
- c) Arrange for a periodic review of its own performance and, at least annually, review its terms of reference to ensure that it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval;
- d) Maintain and operate to a Schedule of Key Matters; and
- e) To review annually a statement of connected loans and / or other significant transactions held by members of the Board.

**Approved: July 2022**

### **Addendum to the Board Audit Committee Terms of Reference**

PRA/FCA Prescribed Responsibilities	Governance Evidence
<p><b>Prescribed Responsibility j)</b>            a) safeguarding the independence of; and (b) oversight of the performance of; the internal audit function in accordance with SYSC 6.2 (Internal audit)</p>	<ol style="list-style-type: none"> <li>1. Internal Audit Charter</li> <li>2. Internal Audit Declaration of Independence</li> <li>3. Internal Audit methodology</li> <li>4. Internal Audit plan</li> <li>5. Internal Audit skills</li> <li>6. Internal Audit Strategy</li> <li>7. Internal Audit Balanced Scorecard and other MI</li> <li>8. Independent Audit assurance reporting to Audit Committee</li> <li>9. Annual Internal Audit Report</li> <li>10. Approval of the process for appointing an independent assessor and independent assessment of the Internal Audit function as a whole at least every five years</li> <li>11. Internal Audit Benchmarking</li> <li>12. Annual Audit Committee Report for the Report and Accounts</li> <li>13. Appointment/removal of Chief Internal Auditor</li> <li>14. Annual review of Audit Committee Terms of Reference</li> <li>15. Chief Internal Auditor reporting line into Chairman of the BAC</li> <li>16. Two private meetings a year between BAC and the Chief Internal Auditor, without management being present.</li> <li>17. Annual discussion of the Chair's assessment of the Chief Internal Auditor's independence and objectivity where tenure exceeds seven years.</li> </ol>

<p><b>Prescribed Responsibility n)</b> the independence, autonomy and effectiveness of the firm's policies and procedures on whistleblowing, including the procedures for the protection of staff that raise concerns from detrimental treatment</p>	<ol style="list-style-type: none"> <li>1. Annual review and recommendation to the Board of the Speak-up Standards</li> <li>2. Annual Whistleblowing Report to Audit Committee for onward submission to the Board for routine review.</li> <li>3. Risk and Control Self-Assessment review submitted to Audit Committee</li> <li>4. Independent Audit assurance reporting</li> <li>5. Updates on regulatory developments for whistleblowing</li> <li>6. Annual Audit Committee Report for the Report and Accounts.</li> </ol>
<p><b>Prescribed Responsibility q)</b> the production and integrity of the firm's financial information and its regulatory reporting in respect of its regulated activities</p>	<ol style="list-style-type: none"> <li>1. Annual review and approval of the financial reporting related policies and related standards (provisioning, tax, non-audit services)</li> <li>2. External Reporting Control Report reviewing significant financial reporting judgements</li> <li>3. Review and approval of Annual Report and Accounts and Interim Statements</li> <li>4. Review of external auditors' reports on the annual and interim accounts</li> <li>5. External auditors' quality of earnings report</li> <li>6. Approval of external auditors' written representations to explain the reasons for not adjusting misstatements, to the accounts</li> <li>7. Review of external auditors' independence, skill and expertise</li> <li>8. Audit Engagement letter</li> <li>9. Appointment/removal of the external auditors</li> <li>10. Annual Audit Committee Report for the Report and Accounts</li> <li>11. Review and recommend to the Board the Pillar 3 Disclosures for approval</li> <li>12. Going Concern Report</li> <li>13. Viability Report (review against industry practice) /Risk Management Report for the R&amp;A</li> <li>14. Tax risk update</li> <li>15. Risk and Control Self-Assessment review submitted to Audit Committee</li> <li>16. Independent Audit assurance reporting</li> <li>17. Two private meetings a year with the external auditors, without management being present</li> <li>18. Updates on developments in accounting standards e.g. IFRS9.</li> <li>19. External audit effectiveness review</li> </ol>
<p><b>FCA Business Activities</b></p>	
<p><b>Activity 21)</b> Middle office  (risk management and controls in relation to, and accounting for, transactions in securities or</p>	<ol style="list-style-type: none"> <li>1. Risk and Control Self-Assessment review submitted to Audit Committee</li> <li>2. Review of external auditors' reports on the annual and interim accounts</li> <li>3. Independent Audit assurance reporting.</li> </ol>

derivatives)	
--------------	--