



Leek Building Society

Board Audit Committee Terms of Reference

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| Owner | Chief Risk Officer |
| Approved By | Board |
| Current Version | 3.0 |
| Date of Approval | March 2025 |
| Date of Next Review | March 2026 |

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1. Constitution

- 1.1 The Board has established a committee of the Board known as the Audit Committee.
- 1.2 The Audit committee makes recommendations for final approval to the Board in line with its responsibilities outlined below.
- 1.3 The Audit Committee's Terms of Reference are approved by the Board.

2. Membership and Quorum

- 2.1 The Committee shall comprise of at least three independent Non-Executive Directors appointed by the Board, but shall not include the Chair of the Board. Membership shall include at least one member of the Risk Committee.
- 2.2 Appointments to the Committee shall be for a period of one year. Following the election/re-election of directors at the AGM, committee membership will be reviewed and members will be appointed/reappointed to the committee.
- 2.3 Executive Directors may not be members of the Committee.
- 2.4 The Chair of the Committee shall be appointed by the Board.
- 2.5 In the absence of the Committee Chair, the remaining members shall elect one of their Non-Executive members to Chair the meeting, but not the Society's Chair.
- 2.6 At least one member of the Committee shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies.
- 2.7 Following appointment, members of the Committee shall receive initial induction training on the role and duties of membership of the Committee. It is the responsibility of the Committee Chair to ensure that all Committee members are in receipt of regular technical updates and ongoing training in respect of new accounting and regulatory requirements.
- 2.8 A quorum necessary for the transaction of business is two members.

3. Attendance at Meetings

- 3.1 The Chief Executive, Chief Financial Officer, Internal Auditor, Chief Risk Officer and a representative from the External Auditors shall normally attend meetings, at the invitation of the Committee.
- 3.2 Other Directors shall attend if invited by the Committee.
- 3.3 The Society Secretary, or his or her nominee, shall act as the Secretary of the Committee.
- 3.4 The Committee may require the attendance of any employee at part or the whole of the meeting.
- 3.5 There should be at least one meeting a year where the External Auditors and Internal Auditor attend without management present, to discuss matters relating to their remit and any issues arising from the audit.

4. Frequency of Meetings

- 4.1 Meetings shall be held at least four times a year, to coincide with key dates in the Society's financial reporting cycle.
- 4.2 Additional meetings of the Committee shall be convened at the request of any of its members, the Chief Executive or at the request of the External or Internal Auditors if they consider one necessary.

5. Notice of Meetings

- 5.1 The four meetings of the Committee noted in Section 4 shall be scheduled annually in advance.
- 5.2 A workplan and standing agenda shall be used to which items may be added by notifying the committee Chair.
- 5.3 Unless otherwise agreed, 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, any other person required to attend and all other Non-Executive Directors, no later than three working days before the date of the meeting. At the same time supporting papers shall be sent to Committee members, other attendees and other Non-Executive Directors as appropriate.

6. Minutes of Meetings

- 6.1 The secretary shall minute the proceedings of all Committee meetings, recording the names of those in attendance, the substance of the discussions, agreed action points, action owners and dates for completion of those actions.
- 6.2 Draft minutes shall be forwarded to the Chair within 10 working days of the meeting taking place. When approved by the Chair of the meeting the minutes shall be forwarded to all members and attendees of the meeting, for approval, and circulated to the Board for noting at the next Board meeting. If there is a need to record private minutes, due to the sensitive content, the Board would be notified by the Chair of the Committee however the content of these minutes would not be shared with the Board for noting.

7. Authority

The Committee is authorised by the Board to:

- 7.1 Investigate any activity within its Terms of Reference;
- 7.2 Seek any information that it requires from any employee of the Society and all employees are directed to co-operate with any request made by the Committee;
- 7.3 Obtain outside legal or independent professional advice and such advisors may be requested to attend meetings as necessary;
- 7.4 Report any unresolved issues between themselves and the Board to members as part of the Annual Report; and
- 7.5 Deal with any other matters referred to it specifically by the Board.
- 7.6 Items requiring approval shall be resolved by a majority of votes and, in the case of an equality of votes, the Chair of the meeting shall have a second or casting vote. Only members of a committee shall have voting and decision-making rights.
- 7.7 Where a committee member has a fundamental disagreement with other committee members, the minutes of the meeting should detail full discussions held to ensure they are a true reflection of the meeting.
- 7.8 Where a decision is required outside of the meeting by email circulation, a unanimous vote will be required.

8. Responsibilities

The Committee is a sub-committee of the Board and is authorised by the Board under the following headings to:

8.1 Internal Control

- 8.1.1 Review the effectiveness of the internal controls and risk management systems of the Society's first and second lines of defence which are used to identify, assess, manage and monitor financial and non-financial risks, and for ensuring compliance with the regulatory environment in which the Society operates. Note: the Board retains responsibility for the review of the effectiveness of the system of internal control and must form its own opinion despite aspects of that review being delegated to the Audit Committee.
- 8.1.2 Review management's and the Internal Auditor's reports on the effectiveness of systems for internal financial control, financial reporting and risk management, including all aspects of the first and second lines of defence.
- 8.1.3 Review and approve the statements to be included in the annual report concerning internal controls and risk management.
- 8.1.4 Give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate.
- 8.1.5 Ensure the co-ordination of the Internal and External Auditors.

8.2 Internal Audit

- 8.2.1 Ensure the Internal Auditor has direct access to the Board Chair and to the Committee Chair, and is accountable to the Committee;
- 8.2.2 Meet with Internal Audit at least once a year without the presence of management;
- 8.2.3 Monitor and review the effectiveness of the Society's Internal Audit in the context of the Society's overall risk management system;
- 8.2.4 Approve the appointment or removal of the supplier of Internal Audit and the Terms of Reference / job description for the post.
- 8.2.5 Monitor the effectiveness of Internal Audit in its operation of the third line of defence, reviewing first and second lines of defence in the context of the Society's overall risk management system.
- 8.2.6 Receive and approve, on an annual basis, a Strategic Audit Plan covering a period of three years, supported by an appropriate risk assessment model to determine the scope of the audit work and the frequency with which it is to be performed to ensure that there is adequate and effective coverage of all business functions and that audits are aligned to the risk profile of the auditable areas.
- 8.2.7 Ensure that Internal Audit is adequately resourced in order to deliver the Audit plan.
- 8.2.8 Review and approve, on an annual basis, the Internal Audit Charter.
- 8.2.9 Receive a report summarising the results of Internal Audit's work on a periodic basis in accordance with Audit plan.
- 8.2.10 Review and consider the adequacy of management's responses and actions arising from Internal Audit's findings and recommendations.
- 8.2.11 The Chair of the Committee will be actively involved in both the performance and remuneration reviews of Internal Audit or by reviewing the outsource providers effectiveness including budget and fees.

8.3 Financial Reporting

- 8.3.1 Monitor the integrity of the financial statements of the Society, reviewing any significant financial reporting judgements contained in them, paying particular attention to:
 - 8.3.1.1 the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed.
 - 8.3.1.2 the clarity and completeness of disclosures in the financial statements and the context in which statements are made.
 - 8.3.1.3 significant adjustments resulting from the External Auditors review.
 - 8.3.1.4 the going concern assumption.
 - 8.3.1.5 compliance with accounting standards.
 - 8.3.1.6 compliance with other regulatory and prudential requirements.
- 8.3.2 Report to the Board on the content of the Annual Report, to determine whether it is fair, balanced, and understandable and provides information necessary for users to assess the Society's performance, business model and strategy.
- 8.3.3 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the company, it shall report its views to the Board.

8.4 External Audit

- 8.4.1 Ensure that at least once every ten years, the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;

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- 8.4.2 If an Auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 8.4.3 Oversee the relationship with the External Auditor including (but not limited to):
 - 8.4.3.1 recommendations on their remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
 - 8.4.3.2 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the Auditor and the company (other than in the ordinary course of business) which could adversely affect the Auditor's independence and objectivity;
 - 8.4.3.3 agreeing with the Board a policy on the employment of former employees of the company's Auditor, and monitoring the implementation of this policy;
 - 8.4.3.4 monitoring the Auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Society compared to the overall fee income of the firm, office and partner and other related requirements;
 - 8.4.3.5 assessing annually the qualifications, expertise and resources of the Auditor and the effectiveness of the audit process, which shall include a report from the External Auditor on their own internal quality procedures;
 - 8.4.3.6 evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their Auditor from the market in that evaluation.
- 8.4.4 Meet regularly with the External Auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without management being present, to discuss the Auditor's remit and any issues arising from the audit;
- 8.4.5 Review and approve the annual Audit plan and ensure that it is consistent with the scope of the Audit engagement, having regard to the seniority, expertise and experience of the Audit team.
- 8.4.6 Review any representation letter(s) requested by the External Auditor before they are signed by management;
- 8.4.7 Develop and implement policy on the supply of non-audit services by the External Auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.
- 8.4.8 Make recommendations on the appointment, reappointment and removal of the External Auditor, via the Board, to members for consideration at the AGM.
- 8.4.9 Approve their terms of engagement, the audit fees and the nature and scope of their audit work to enable an effective and high quality audit to be conducted.
- 8.4.10 On an annual basis, review their performance, their objectivity and independence, and to ensure that key partners are rotated at appropriate intervals.
- 8.4.11 Discuss with the External Auditor, before the audit commences, the nature and scope of the audit and to review the Auditors' quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements.
- 8.4.12 Review, with the External Auditors, the findings of their work. This shall include, but not be limited to, the following:
 - 8.4.12.1 A discussion of any major issues which arose during the audit;
 - 8.4.12.2 Key accounting and audit judgements;
 - 8.4.12.3 Levels of errors identified during the audit; and
 - 8.4.12.4 The effectiveness of the audit process.
- 8.4.13 To review the External Auditors management letter and management's response, ensuring that any recommendations have been acted upon, and if not, the reasons why no action has been taken.
- 8.4.14 Follow the Audit Committees and the External Audit: Minimum Standard: -

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- Conducting the tender process and making recommendations to the Board, about the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor.
- Reviewing and monitoring the external auditor's independence and objectivity.
- Reviewing the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements; and
- Developing and implementing policy 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.

8.5 Other responsibilities

- 8.5.1 Obtain access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required.
- 8.5.2 Work and liaise as necessary with all other Board Committees as appropriate
- 8.5.3 Review the Committee's Terms of Reference on an annual basis and make amendments as appropriate, subject to Board approval.
- 8.5.4 Make the Committee's Terms of Reference available on the Society's website in line with our Corporate Governance responsibilities.
- 8.5.5 Make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

9 Reporting

- 9.1 The Committee Chair shall report verbally to the Board on its proceedings immediately after each meeting, with the meeting minutes being submitted to the following month's Board for noting.
- 9.2 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 addressed the effectiveness of the external audit process; the significant issues that 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; and all other information requirements set out in the UK Corporate Governance Code or Audit Committees and the External Audit: Minimum Standard.
- 9.3 In compiling the reports referred to above, the Committee shall exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but shall include at least those matters that have informed the Board's assessment of whether the Society is a going concern. The report to the members need not repeat information disclosed elsewhere in the Annual Report and Accounts, but could provide cross-references to that information.
- 9.4 The Chair of the Committee shall attend the Society's AGM and be available to answer questions through the Chair of the Board.

10 Committee Evaluation

- 10.1 The Committee members shall conduct an annual review of the effectiveness of the Committee by 31st December each year and shall consider the results, agreeing actions as appropriate.
- 10.2 The results of the Evaluation will be documented and reported to the Board.