

**1. Membership**

- 1.1 The Committee shall be appointed by the Board. The Committee shall be made up of at least three non-executive members.
- 1.2 The Board shall appoint an appropriately qualified Chair.
- 1.3 The Chair of the Society shall not normally be a member of the Committee.

**2. Quorum**

- 2.1 The quorum for a meeting of the Committee shall be two members.

**3. Frequency of Meetings**

- 3.1 The Committee shall meet quarterly, or more frequently as considered appropriate.
- 3.2 The Chair of the Committee shall meet regularly with the Finance Director, without the presence of executive officers.

**4. Attendance at Meetings**

- 4.1 The Chief Executive, the Finance Director, External Auditors and Mutual One representatives may be invited to attend meetings. In addition, members of the Executive Team and other Board members may be invited to attend any meeting as and when appropriate.

**5. Minutes of Meetings**

- 5.1 The Finance Director or his or her nominee shall be responsible for recording the minutes of the meeting.
- 5.2 Minutes of meetings will be circulated to all Directors.

**6. Duties**

The Committee shall in respect of:

- 6.1 Financial Reporting
  - 6.1.1 Review and challenge where necessary the actions and judgements of management in relation to the Society's annual accounts prior to approval by the Board.
- 6.2 Internal Control
  - 6.2.1 Monitor the integrity of the Society's internal controls.
  - 6.2.2 Review internal audit's reports on the effectiveness of the systems for the management of internal controls, financial reporting and risk management.
  - 6.2.3 Obtain reports from internal audit on major audit findings where management has decided to assume the risk.

- 6.3 Internal Audit
  - 6.3.1 Approve senior management appointment with overall responsibility for arrangements in relation to adherence to internal systems and controls, procedures and policies (FSA controlled function CF28).
  - 6.3.2 Review and approve the internal audit programme and ensure that appropriate internal audit resources are in place to deliver the programme.
  - 6.3.3 Ensure internal audit has direct access to the Committee.
  - 6.3.4 Receive a report on the results of internal audit's work at each Committee meeting.
  - 6.3.5 Review and monitor management's responsiveness to internal audit's findings and recommendations.
  - 6.3.6 Monitor and assess the role and effectiveness of internal audit arrangements.
  
- 6.4 External Audit
  - 6.4.1 Oversee the Society's relationship with the external auditor.
  - 6.4.2 Consider and make recommendations to the Board on the appointment, reappointment and removal of the external auditor.
  - 6.4.3 Approve the terms of engagement and the remuneration to be paid to the external auditor in respect of audit services provided.
  - 6.4.4 Review and approve the external audit annual plan.
  - 6.4.5 Ensure that there are no restrictions in the scope and depth of external audit work.
  - 6.4.6 Review and monitor the content of the external auditor's management letter and management's response.
  
- 6.5 Compliance
  - 6.5.1 Approve senior management appointment with overall responsibility for compliance oversight (FSA controlled function CF10).
  - 6.5.2 Approve the appointment of a Compliance Officer and ensure this individual has the appropriate authority and independence as Compliance Officer.
  - 6.5.3 Monitor and assess arrangements established for compliance with regulatory requirements.
  - 6.5.4 Review and approve the compliance review programme.
  - 6.5.5 Receive a report on the results of compliance's review work at each Committee meeting.
  - 6.5.6 Review and monitor management's responsiveness to compliance's findings and recommendations.
  - 6.5.7 Receive and review quarterly non-compliance reports.
  
- 6.6 Financial Crime
  - 6.6.1 Approve senior management appointment with overall responsibility for the establishment and maintenance of effective financial crime systems and controls.
  - 6.6.2 Approve the appointment of a Money Laundering Reporting Officer (MLRO) (FSA controlled function CF11) and ensure this individual has the appropriate authority and independence.
  - 6.6.3 Approve the appointment of a nominated officer to process disclosures.
  - 6.6.4 Approve the appointment of a Fraud Officer.
  - 6.6.5 Monitor and assess arrangements established for managing financial crime risks.
  - 6.6.6 Review and approve annually the Society's Financial Crime Prevention Policy.
  - 6.6.7 Receive a half yearly update on money laundering and fraud activity.
  - 6.6.8 Review and approve the Money Laundering Annual Report and Risk Assessment.

- 6.7 Risk Management
- 6.7.1 Approve senior management appointment with overall responsibility for the establishment and maintenance of effective risk management systems and controls (FSA controlled function CF28).
  - 6.7.2 Monitor the adequacy and effectiveness of risk management policies and procedures.
  - 6.7.3 Annually assess the effectiveness of risk management processes of other Board sub-committees.
  - 6.7.4 Receive and approve annually the Society's Risk Control Policy.
  - 6.7.5 Receive and approve annually the Society's Operational Risk Policy.
  - 6.7.6 Receive and consider quarterly updates on Society's risk exposure.

**7. Reporting**

- 7.1 The Chair of the Committee shall report formally to the Board on its proceedings after each meeting.

**8. Annual General Meeting**

- 8.1 The Chair of the Committee shall attend the Annual General Meeting prepared to respond to any member questions on the Committee's activities.

**9. Review of Performance**

- 9.1 The Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and where appropriate approve changes.

Reviewed and approved by Audit & Compliance Committee  
23rd November 2009