

Terms of Reference: Risk, Compliance and Audit Committee



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1. Constitution

The Board has resolved to establish a Committee of the Board to be known as the Risk, Compliance and Audit Committee (the “Committee”).

2. Membership

- 2.1. The Committee shall comprise at least three Non-Executive Directors. A majority of the Committee members shall be Independent Non-Executive Directors. At least one of member shall have recent and relevant financial experience and at least one member shall have recent and relevant local authority sector experience. The Chairman of the Board shall not be the Chairman of the Committee.
- 2.2. Committee members shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Committee.
- 2.3. Appointments to the Committee are made by the Board and shall be for a period of up to three years, which may be extended for further periods of up to three years, provided the Director still meets the criteria for membership of the Committee.
- 2.4. The Board shall appoint the Chairman of the Committee who shall be an Independent Non-Executive Director. In the absence of the Chairman of the Committee and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting from those who would qualify under these terms of reference to be appointed to that position by the Board.

3. Secretary

- 3.1. The Company Secretary, or his or her nominee, shall act as the secretary of the Committee (the “**Committee Secretary**”) and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

4. Attendance

- 4.1. The quorum necessary for the transaction of business shall be two members. No meeting may be validly held unless all Committee members have received notice of the meeting. Whenever it is practicable, meetings shall be arranged so that all Committee members can be present.
- 4.2. Only Committee members have the right to attend Committee meetings. However, other Directors may be invited to attend all or part of any meeting, as and when deemed appropriate and necessary by the Board or the Committee, particular care being taken to recognise and avoid any potential conflicts of interest.
- 4.3. At least one senior officer is required to attend all meetings, as agreed with the Chair of the Committee.
- 4.4. The Internal Auditor, where one is appointed, and External Auditor shall be invited to attend all meetings.
- 4.5. Other representatives of the risk, including the Credit Officer, compliance, finance and internal audit functions, where appointed, and of the External Auditor may be invited to attend all or part of any meeting, as and when deemed appropriate and necessary by the Board or the Committee.

5. Frequency of Meetings

- 5.1. The Committee shall meet at least 3 times a year and otherwise as required.
- 5.2. Outside of the formal meeting programme, the Chairman of the Committee will maintain a dialogue with key individuals involved in the Company's governance, including the Chairman of the Board, the Chief Executive, the Chief Operating Officer, Chief Finance Officer (should one be separately appointed), the Chief Risk Officer, where one has been appointed, the Credit Officer, the Internal Auditor, where one has been appointed, and the External Auditor.

6. Notice of Meetings

- 6.1. Meetings of the Committee shall be called by the Committee Secretary at the request of any of its members or at the request of the CRO, Internal Auditor, where one has been appointed, or External Auditor if he or she considers a meeting necessary.
- 6.2. Unless otherwise agreed by all Committee members, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each Committee member, any other person required to attend and all other Non-Executive Directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to attendees, as appropriate, at the same time.

7. Minutes of Meeting

- 7.1. The Committee Secretary shall minute the proceedings and decisions of all Committee meetings, including recording the names of those present and in attendance.
- 7.2. Draft minutes of Committee meetings shall be circulated promptly to all Committee members, once reviewed by the Chair. Once approved, minutes should be circulated to all other members of the Board unless a conflict of interest exists.
- 7.3. The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

8. Annual General Meeting

- 8.1. The Chairman of the Committee should attend the annual general meeting (if any) to respond to questions from shareholders on the Committee's activities.

9. Authority

- 9.1. The Committee is authorised by the Board at the expense of the Company:
 - 9.1.1. to investigate any matter within its terms of reference. It is authorised to seek any information that it requires from any employee or any
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- director in order to perform its duties and all employees and directors are directed to cooperate with any requests made by the Committee;
- 9.1.2. to obtain external legal or other professional advice on any matters within its terms of reference; and
 - 9.1.3. to secure the attendance of third parties with relevant experience and expertise at meetings of the Committee if it considers this necessary.
 - 9.1.4. 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.

10. Role And Responsibilities

The Committee shall:

Risk Management

- 10.1. Within the context of the Business Plan, advise the Board on the Company's overall risk appetite, tolerance and strategy as documented in the *Risk Appetite Statement*. Oversee and advise the Board on the current risk exposures of the Company and future risk strategy.
- 10.2. Review the Company's capability to identify and manage new risk types
- 10.3. Review and approve the design of the Company's risk management framework, and the ongoing completeness and effectiveness thereof, to review the adequacy and quality of the risk management function and to review the effectiveness of risk reporting.
- 10.4. Before a decision to proceed is taken by the Board, advise the Board on proposed strategic transactions including acquisitions or disposals, focusing in particular on risk aspects and implications for the risk appetite and tolerance of the Company, and taking independent external advice where appropriate and available.
- 10.5. In relation to risk assessment:
 - 10.5.1 keep under review the Company's overall risk assessment processes that inform the Board's decision making, ensuring both qualitative and

- quantitative metrics are used and taking into account the current and prospective macro-economic environment;
- 10.5.2 review regularly and approve the parameters used in these measures and the methodology adopted; and
- 10.5.3 set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance.

Regulation and Compliance

- 10.6. To consider and review:
 - 10.6.1 the Company's relationships with the regulatory authorities in the UK and, where appropriate, other geographies where the activities of the Company may have a significant impact;
 - 10.6.2 developments and prospective changes in the regulatory environment;
 - 10.6.3 the Company's plans to help influence future regulatory policies, where appropriate;
 - 10.6.4 the framework for the Company to achieve a co-ordinated and uniform response to regulators; and
 - 10.6.5 the Company's consideration of compliance with relevant laws and regulations and related guidance and recommendations, as appropriate, including but not limited to the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules.

Internal Controls

- 10.7 Review significant breaches, or potential breaches of regulation or risk limits and the adequacy of proposed action and to consider the steps to be taken to ensure that the underlying causes of any control failures are being addressed adequately.
- 10.8 Keep under review the effectiveness of the Company's internal financial controls and internal controls and risk management systems and review

- and approve the statements to be included in the annual report concerning viability, internal controls and risk management.
- 10.9 Review and assess the appropriateness of the Company's procedures for handling, in confidence, concerns raised by employees or others, about possible improprieties in financial reporting or other matters including, but not limited to, whistleblowing
- 10.10 Review the Company's procedures relating to prevention of financial malpractice, including money laundering, the detection of fraud and the prevention of bribery. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

Executive Oversight, Remuneration and Appointments

- 10.11 The Committee shall review from time to time, the requirement for the appointment of a Chief Risk Officer
- 10.12 Provide qualitative and quantitative advice to the Remuneration Committee on risk weightings to be applied to performance objectives incorporated in executive remuneration.
- 10.13 Review and monitor management's responsiveness to the findings and recommendations of the CRO, where one has been appointed.
- 10.14 Recommend to the Board the appointment and/or removal of the CRO, where appropriate.
- 10.15 Participate jointly with the CEO in determination of the objectives of the CRO and the evaluation of his or her levels of achievement and to help determine and approve his or her remuneration.
- 10.16 Review promptly all reports on the Company from the CRO.
- 10.17 Ensure the CRO shall be given the right of unfettered direct access to the Chairman of the Board and to the Committee.
- 10.18 Consider and approve the remit of the risk management function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the

function has adequate independence and is free from management and other restrictions.

Financial Reporting

10.19 In connection with the Company's public reporting, the Committee shall advise the Board on the issuance of such reports having:

10.19.1 monitored the integrity of the financial statements of the Company, including its annual and interim reports and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain.

10.19.2 reviewed and challenged where necessary:

10.19.2.1 the appropriateness of using the going concern basis of accounting

10.19.2.2 the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company;

10.19.2.3 the methods used to account for significant or unusual transactions where different approaches are possible;

10.19.2.4 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the External Auditor;

10.19.2.5 the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and

10.19.3 reviewed the content of the annual report and accounts considered whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, position and prospects.

Internal Audit

10.20 In connection with Internal Audit the Committee shall monitor and review the effectiveness of the Company's internal auditor in the context of the Company's overall risk management system. Where there is no internal

audit function, the audit committee shall consider annually whether there is a need for an internal audit function and make are commendation to the board, within the context of the Business Plan

- 10.20.1 approve the appointment and removal of the Internal Auditor;
- 10.20.2 consider and approve the remit of the Internal Auditor and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the Internal Auditor has adequate standing and is free from management or other restrictions;
- 10.20.3 review and assess the annual internal audit plan;
- 10.20.4 review periodically reports on the results from the Internal Auditor;
- 10.20.5 review and monitor management's responsiveness to the findings and recommendations of the Internal Auditor;
- 10.20.6 meet the head of the Internal Auditor at least once a year, without management being present, to discuss the Internal Auditor's remit and any issues arising from the internal audits carried out; and
- 10.20.7 ensure the Internal Auditor has direct access to the Chairman of the Board and to the Chairman of the Committee, and is accountable to the Committee.

External Audit

- 10.21 In connection with External Audit the Committee shall:
 - 10.21.1 consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the Company's External Auditor. The Committee shall be responsible for the selection process for a new External Auditor;
 - 10.21.2 agree the timing of putting the external audit services contract out to tender (taking account regulatory requirements on retendering and rotation and of the UK Corporate Governance Code's requirement of putting the external audit services contract out to tender at least every ten years, to enable the Committee to compare the quality and effectiveness of the services provided by
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- the incumbent auditor with those of other audit firms; and in respect of such tender selection process ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process;
- 10.21.3 if the External Auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 10.21.4 oversee the relationship with the external auditor including (but not limited to):
- 10.21.4.1 recommendations on their remuneration, including fees for audit or non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
 - 10.21.4.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - 10.21.4.3 assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
 - 10.21.4.4 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the external auditor's independence and objectivity;
 - 10.21.4.5 agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
 - 10.21.4.6 monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;

- 10.21.4.7 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;
- 10.21.4.8 seeking to ensure co-ordination with activities of the Internal Auditor; and
- 10.21.4.9 evaluating the quality and effectiveness of the External Audit process and reporting thereon in the annual report and accounts.
- 10.21.4.10 meet regularly with the External Auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss the external auditor's remit and any issues arising from the audit;
- 10.21.4.11 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;
- 10.21.4.12 review the findings of the audit with the External Auditor. This shall include but is not limited to the following:
 - 10.21.4.12.1 a discussion of any major issues which arose during the audit;
 - 10.21.4.12.2 any accounting and audit judgements;
 - 10.21.4.12.3 levels of errors identified during the audit process; and
 - 10.21.4.12.4 the effectiveness of the audit process;
- 10.21.5 review any representation letter(s) requested by the External Auditor before they are approved by the Board.;
- 10.21.6 review the management letter and management's response to the auditor's findings and recommendations; and
- 10.21.7 develop and implement a 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 regulation and ethical guidance on the matter.

11. Reporting Responsibilities

- 11.1 The Chairman of the Committee shall report to the Board on its proceedings after each meeting on all pertinent matters within its terms of reference.
- 11.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its terms of reference where action or improvement is needed.
- 11.3 The Committee shall compile a report on its activities to be included in the Company'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 External Auditor.
- 11.4 The Committee shall produce a report of its risk management and internal control activities for inclusion in the Company's annual report and accounts.