

AUDIT COMMITTEE

TERMS OF REFERENCE

1 Membership and Attendance

The Audit Committee shall have a minimum of three members who shall be appointed by the Board from amongst the non-executive Directors, on the recommendation of the Nomination Committee and in consultation with the Audit Committee Chair. The quorum for the Committee shall be two members. The Chair of the Committee shall be appointed by the Board. The Chair of the Board shall not normally be a member of the Audit Committee.

The Committee as a whole shall have competencies relevant to the building society sector. At least one member of the Committee must have relevant and recent financial experience.

The Chief Executive, Finance Director, Operations Director, and the Society Secretary normally attend meetings at the invitation of the Committee. Any other member of staff may be invited to attend at the request of the Committee. The external and internal auditors shall be given notice of all meetings and shall have the right to attend and speak. The agenda and papers must be circulated to both the internal and external auditors.

The Society shall provide an induction programme for new Audit Committee members. Training shall also be made available to members of the Audit Committee on an ongoing basis. This will include the principles of, and developments in, corporate reporting and regulation.

2 Committee Secretary

The Society Secretary or, with the agreement of the Chairman of the Committee his nominee, shall act as Committee Secretary. The Committee Secretary 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 Frequency of Meetings

The Committee shall normally meet five times each year. The Committee Secretary agrees a programme of dates and agendas with the Committee Chairman at the start of each year. One meeting shall be held prior to the annual statutory accounts being presented to the Board for approval. Additional meetings may be held at the request of any member of the Committee or the internal or external auditors.

Outside of the formal meeting programme the Committee Chair, and to a lesser extent other committee members, will maintain a dialogue with key individuals involved in the Society's governance, including the Board Chair, the

Chief Executive, the Finance Director, the external audit partner and the head of internal audit.

4 Minutes of Meetings

The Secretary of the Committee shall minute the proceedings and resolutions of all meetings of the Committee. Draft minutes of committee meetings shall be agreed with the Committee Chair. The Minutes of meetings of the Committee shall be circulated to the Board.

Any changes to the Declaration of Interest Log, or conflicts of interest declared that are specific to items on the agenda for a meeting, will be minuted.

5 Authority

The Committee is a committee of the Board of Directors of Progressive Building Society from which it derives its authority and to which it regularly reports.

The Committee has delegated authority of the Board in respect of functions and powers in these Terms of Reference. The Committee may sub-delegate any or all of its powers of authority as it sees fit, including, without limitation the establishment of sub-committees to analyse particular themes or issues and to report back to the Committee.

The Committee has authority to:

- investigate any matter relating to the Society and to obtain any information as it may require from any Director, officer or employee of the Society.
- engage independent counsel and other professional advisors at the expense of the Society and to invite them to attend meetings.
- seek any information it requires from any employee of the Society in order to perform its duties
- call any employee to be questioned at a meeting of the Committee as and when required
- have the right to publish in the Annual Report details of any issues that cannot be resolved between the Committee and the Board.

6 Purpose and Duties

The purpose and duties of the Audit Committee have been drafted with reference to the guidance in SYCS 3.2.15 of the joint PRA and FCA Handbook (see Appendix A) and also to the UK Corporate Governance Code.

Purpose:

The Audit Committee is established as a Committee of the Board of Directors. Under SYSC 3 – Systems and Controls, the Society is required to take reasonable care to establish and maintain such systems and controls as are appropriate to its business.

The Audit Committee is also charged with the review of the Annual Report and Accounts, prior to approval by the Board, and also the reports of the internal and external auditors.

Duties:

a Reviewing System of Internal Controls (including the Systems of Internal Financial Controls)

The Committee shall examine the existence, effectiveness and adequacy of the Society's system of internal controls

The Committee shall examine management's process for ensuring the appropriateness and effectiveness of the systems of internal financial control, examine the arrangements made by management to ensure compliance with requirements and standards under the regulatory system, oversee the internal audit function, and provide an interface between management and the external auditors.

The Committee shall receive a report, written, from the Finance Director at least annually on the adequacy of financial controls.

The Committee shall consider the adequacy of management information and other reports made available to the Committee.

The Committee shall work closely with the internal audit function in monitoring the effectiveness and adequacy of the Society's system of internal controls.

b Internal Audit

Internal Audit Appointment and Structure

The Committee shall:

- determine the fees and terms of engagement of the internal auditors
- approve the appointment or removal of the internal auditor
- monitor and review the effectiveness and independence of the internal auditor in the context of the Society's overall risk management system
- consider and approve the Internal Auditor Charter.
- consider the need for an internal audit function and if there is then consider the most appropriate structure (ie in-house provision of internal audit function or external service provider)



- determine whether it is satisfied that the quality, experience and expertise of the internal audit function is appropriate for the Society's needs.

Internal Audit Assurance

The Committee shall:

- ensure the internal audit function has adequate standing and unrestricted scope to fulfill its mandate.
- work with internal audit to determine the scope and format of the internal audit risk methodology and coverage in monitoring the systems and controls of the Society.
- review and approve the annual internal audit plan and ensure that it is aligned to the key risks of the Society's business.
- review all reports on the Society from the internal auditor
- review and monitor management's responsiveness to the findings, recommendations and conclusions of the internal auditor
- meet the internal auditor at least annually without management being present, to discuss their remit and any issues arising from the internal audits carried out
- ensure that the internal auditor shall be given direct access to the chairman of the Board and to the Committee.
- ensure compliance with best practice including guidance in the Institute of Internal Auditors publication on Effective Internal Audit in the Financial Services sector

NB *Internal Audit Function is currently outsourced. The Committee recognises that regulatory accountability cannot be outsourced.*

c External Audit

External Audit Engagement

The Committee shall:

- recommend to the Board, for submission to the AGM, the appointment, re-appointment or removal of external auditors
- ensure that the chair of Audit Committee be present at the AGM
- oversee the tendering process for a new auditor and if the auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required
- oversee the relationship with the external auditor including (but not limited to)



- recommendations on their fees, whether fees for audit or non-audit services, and that the level of fees is appropriate to enable an adequate audit to be conducted
 - approval of their terms of engagement, including the engagement letter and the scope of the audit
- ensure that the rules and guidance on the role auditors play in the PRA and FCA's monitoring of compliance as set out in SUP 3 – Auditors, are met
- recommend to the Board the policy in relation to the provision of non-audit services
- pre-approve any fees in excess of £5,000 for an individual project or cumulative annual fees in excess of 20% of audit fees in respect of non-audit services provided by the external auditors and to ensure that the provision of such non-audit services does not impair the independence and objectivity of the auditors
- annually assess the qualifications, expertise and resources of the auditors, and their independence objectivity, and effectiveness
- monitor the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner
- approve the terms of engagement and remuneration of the external auditor.

External Audit Process:

The Committee shall:

- report to the Board on the recommendations for improvements in the final audit report
- receive reports from the external auditors
- seek confirmation that the findings and recommendations of such reports are implemented
- seek to ensure co-ordination with the activities of the internal audit function
- meet the external auditor at least annually without management being present to discuss their remit and any issues arising from the audit
- review and approve the annual audit plan and ensure it is consistent with the scope of the audit engagement
- review the findings of the audit with the external auditor, including but not limited to a discussion of the major audit issues, any accounting issues, any accounting and audit judgments and levels or errors identified during the audit.
- review any representation letter requested by the external auditor before authorising management to sign.

d Management Information

To receive reports from the internal and external auditors, and any other reports as appropriate.

To seek confirmation that the findings and recommendations of such reports are implemented through monitoring management's responsiveness to auditors' findings.

e Annual Report & Accounts

The Annual Report and Accounts will be prepared by senior management. The Committee provides oversight to provide assurance to the Board on the propriety of financial reporting process.

The Committee shall ensure that the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary to assess the Society's position and performance, business model, prospects and strategy.

The Committee shall ensure that the Society complies with The UK Corporate Governance Code requirements as they apply to building societies.

The Committee shall monitor the integrity of the financial statements of the Society including judgements which they contain and shall give sufficient consideration to the asymmetry between the financial statements and other sections of the Annual Report.

The Committee shall compile a report on its activities to be included in the 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 and all other information requirements set out in the UK Corporate Governance Code.

Taking account of the Society's current position and principal risks, the Board should explain in the Annual Report how it has assessed the prospects of the Society, over what period it has done so and why it considers that period to be appropriate. The Board should state whether it has a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.

The Committee shall consider whether it is appropriate to adopt the going concern basis and ongoing viability of the Society paying particular attention to the assumptions used in the preparation of the going concern and viability statement.

The Committee shall also review the summary financial statement to ensure its consistency with the Annual Report and Accounts..

The Committee shall also review and challenge where necessary:

- the consistency of, and any changes to, accounting policies on a year on year basis
- the methods used to account for significant and unusual transactions where different approaches are possible
- whether the Society has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor
- the clarity of disclosure in the Society's financial reports and the context in which the statements are made
- all material information presented with the financial statements, such as business review and the corporate governance statement
- recommend the approval of Annual Report & Accounts and Summary Financial Statement to the Board

f Whistleblowing

The Committee shall:

- review the effectiveness of the Society's policies and procedures to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these policies and procedures allow proportionate and independent investigation in such matters and appropriate follow up action.
- The Conduct Risk Committee will set the Society's Whistleblowing Policy.

g Fraud, Bribery and Anti Money Laundering

The Committee shall:

- review the effectiveness of the Society's policies and procedures for fraud, bribery and anti-money laundering.
- The Conduct Risk Committee will set out the Society's Anti-Money Laundering Policy.

h General

- The Committee shall review its own performance, constitution and terms of reference at least annually to ensure it remains appropriate and fit for purpose
- consider any other matters as directed by the Board

- report to the Board how it has discharged its responsibilities.
- The Committee will refer to the Prudential Risk Committee and Conduct Risk Committee any matters discussed which it considers will the impact on their areas of responsibility

7 Reporting Procedures

The chairman of the Committee shall report formally to the Board on its proceedings after each meeting. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit.

Minutes shall be prepared on a timely basis, summarising the work undertaken by the Committee including any conclusions drawn and actions either taken or to be undertaken.

In compiling its reports to the Board and in the Annual Report, 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 which have informed the Board's assessment of whether the Society is a going concern and the inputs to the Board's viability statement.

8 Availability

These terms of reference are required to be made available on request to Members.

November 2018

Appendix A

Audit Committee SYSC 3.2.15

Depending on the nature, scale and complexity of its business, it may be appropriate for a firm to form an audit committee. An audit committee could typically examine management's process for ensuring the appropriateness and effectiveness of systems and controls, examine the arrangements made by management to ensure compliance with requirements and standards under the regulatory system, oversee the functioning of the internal audit function (if applicable - see SYSC 3.2.16 G) and provide an interface between management and the external auditors. It should have an appropriate number of non-executive directors and it should have formal terms of reference