

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

1. CONSTITUTION

- 1.1 The Audit Committee (Committee) was constituted as a committee of the Board of Directors of Suffolk Building Society.
- 1.2 The Committee has the delegated authority of the Board in respect of the functions and powers set out in these terms of reference.
- 1.3 The Committee may sub-delegate any or all of its powers and authority as it thinks fit to one or more of its members or the Society Secretary, including, without limitation, the establishment of sub-committees which are to report back to the Committee.

2. ROLE

The role of the Committee, with the assistance of Internal Audit, is to act as a third line of defence to the Society's operational controls. It assists the Board in fulfilling its oversight responsibilities by reviewing and checking:

- 2.1 The integrity of the financial information provided to members and stakeholders.
- 2.2 The Society's system of internal controls and risk management.
- 2.3 The internal and external audit process and auditors.

3. DUTIES AND TERMS OF REFERENCE

The Committee shall carry out the following duties for the Society as appropriate:

3.1 Financial reporting

The Committee shall:

- (a) Monitor and discuss with management the integrity of the financial statements of the Society including:
 - (i) The annual reports.
 - (ii) Any other formal announcement relating to its financial performance and recommend approval by the Board where appropriate.
- (b) Review and report to the Board significant financial reporting issues and judgements which the financial statements, and related formal statements contain having regard to matters communicated to it by the External Auditor.
- (c) Review and challenge where necessary:
 - (i) The consistency, quality and appropriateness of the accounting policies, including any changes to accounting policies both on a year on year basis and across the Society.
 - (ii) Whether the Society has made appropriate estimates and judgements, taking into account the External Auditor's views.
 - (iii) The clarity and completeness of financial reporting disclosures and any changes to those disclosures, including the review of any correspondence between the Society and the External Auditor.
 - (iv) The methods used to account for significant or unusual transactions (including any off balance sheet arrangements) where different approaches are possible.
 - (v) Significant adjustments resulting from the External Audit.

- (vi) The assumptions or qualifications in support of the going concern statement (including any material uncertainties as to the Society's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements) and if considered appropriate the longer term viability statement (including an assessment of the prospects of the Society looking forward over an appropriate and justified period).
- (d) Monitor compliance with financial reporting standards and other financial and governance reporting requirements.
- (e) Review all material information presented with the financial statements, such as the strategic report and the corporate governance statements, insofar as it relates to audit and risk management.
- (f) Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Society, report its views to the Board.

3.2 Narrative reporting

Where requested by the Board, the Committee shall review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for members to assess the Society's performance, business model and strategy.

3.3 Risk management systems and internal controls

(a) Risk management

- (i) On behalf of the Board (which retains overall responsibility for risk management), review and monitor the Society's risk management system and carry out a review of its effectiveness, and review and approve the statement to be included in the annual report concerning risk management.
- (ii) Ensure customer outcomes are a central focus of risk control arrangements under SYSC, in accordance with Consumer Duty

(b) Internal controls

Review the Society's internal financial controls and internal control systems and carry out a review of its effectiveness and approve the statement to be included in the annual report concerning internal control.

(c) On-going viability

Where requested by the Board, provide advice on how, taking into account the Society's position and principal risks, the Society's prospects have been assessed, over what period and why the period is regarded as appropriate. The Committee shall also advise on whether there is a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary.

(d) Management and internal and external audit reports

- (i) Review the assurance reports from management on the effectiveness of the internal control and risk management systems and from the Internal Audit, the External Auditor and others on the operational effectiveness of matters related to risk and control.
- (ii) Review the timeliness of, and reports on, the effectiveness of corrective action taken by management in response to any material external or internal audit recommendation.

3.4 Internal audit

The Committee shall:

- (a) Approve the appointment and removal of the head of the internal audit function (this maybe through the appointment of an external firm).
- (b) Review and approve the remit of the internal audit function and assess and ensure that the function has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with appropriate professional standards. The Committee shall also ensure that the function has adequate standing and is free from management or other restrictions.
- (c) Ensure the internal audit function has direct access to the Board Chairman and to the Committee; and is accountable to the Committee.
- (d) Review and assess the annual Internal Audit Plan and be advised of the reasons for any change or delay in the plan and ensure co-ordination between the internal and external auditors and regulators.
- (e) Receive a report on the results of the internal auditor's work on a periodic basis.
- (f) Review and monitor management's responsiveness to the internal auditors' findings and recommendations.
- (g) Monitor and review the effectiveness of the Society's internal audit function in the context of the Society's overall risk management system, irrespective of whether this is an in-house or outsourced function.
- (h) Ensure that the Committee meets with the head of internal audit, without Executive present, at least once per year.
- (i) Set the remuneration for the internal audit function.
- (j) Ensure that customer outcomes are a central focus of the Internal Audit function

3.5 External audit

The Committee shall:

- (a) Appointment, reappointment and resignation
 - (i) Consider and make recommendations to the Board, to be put to members at the Society's AGM, on the appointment, reappointment or removal of the Society's external auditors.
 - (ii) 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 tendering process.
 - (iii) If any auditor resigns, investigate the issues leading to this and decide whether any action is required.
 - (iv) Evaluate 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 the auditor from the market in that evaluation.
- (b) Terms of engagement

Oversee the relationship with the external auditor and negotiate and agree their terms of engagement, including any engagement letter issued at the start of each audit, the scope of the audit and, in consultation with the Executive Directors, agree their remuneration (including fees for both the audit and non-audit services) to ensure that the level of fees is appropriate to enable an effective and high quality audit to be undertaken.
- (c) Independence and expertise

- (i) Review and assess on an annual basis:
- (ii) The external auditor's independence and objectivity taking into account the relevant UK law, professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services.
- (iii) 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.
- (iv) Seek reassurance from the external auditor and their staff that they have no relationships with the Society which could adversely affect the auditor's independence and objectivity and, seek information from the external audit firm about policies and processes for maintaining independence and monitoring compliance.
- (d) Non-audit services
 - (i) Ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity, satisfying itself that there are no relationships between the auditor and the Society outside the ordinary course of business (including the level of non-audit fees) that could adversely affect the auditor's independence and objectivity, or the audit process.
 - (ii) Keep the policy for the provision of non-audit services under review.
- (e) Audit cycle
 - (i) Review and approve the annual audit plan at the start of the audit cycle and ensure it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team.
 - (ii) 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 the Executive Directors or other management being present, to review the findings of the audit including (but not limited to) any major resolved or unresolved issues that arose during the audit, key accounting and audit judgements and levels of errors identified during the audit.
 - (iii) Consider communications from the external auditor on audit planning and findings on material weaknesses in accounting and internal control systems that come to the auditor's attention, including a review of material items of correspondence between the Society and the external auditor.
 - (iv) Review any representation letter(s) requested by the external auditor before they are signed by management and consider whether, based on its knowledge, the information provided is complete and appropriate.
 - (v) Review, prior to its consideration by the Board, the external auditor's report to the Directors and their management letter, including management's response to the auditor's findings and recommendations.
 - (vi) At the end of the audit cycle, assess the effectiveness of the audit process including:
 - (A) Reviewing whether the auditor has met the agreed audit plan.
 - (B) Understanding reasons for changes to the audit plan.
 - (C) Considering the external auditor's robustness and perceptiveness in handling key accounting and audit judgements and responding to the Committee's questions.
 - (D) Obtaining feedback from key people on the conduct of the audit.

- (E) Reviewing and monitoring the content of the external auditor's management letter and reporting to the board on the effectiveness of the audit process.
- (f) Other matters
 - (i) Be responsible for the co-ordination between the activities of the external auditor and the internal audit function.
 - (ii) Agree with the Board the Society's policy on employment of former employees of the Society's external auditor and monitor the implementation of this policy.
 - (iii) Monitor the external auditor's compliance with relevant ethical and professional guidance on the rotation of the 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.

4. MEMBERSHIP

- 4.1 The Committee shall comprise a minimum of three members. Each Committee member shall be an independent Non-Executive Director, at least one of whom shall have recent and relevant experience working with financial and accounting matters ideally with a professional qualification from one of the professional accountancy bodies.
- 4.2 The Board shall appoint members of the Committee, on the recommendation of the Chairman's and Nominations Committee, in consultation with the Committee chairman.
- 4.3 The chairman of the Board shall not chair the Committee.
- 4.4 Appointments to the Committee shall be for a period of up to three years, extendable by two additional three-year periods, so long as members continue to be independent. Tenure beyond nine years will be considered in certain circumstances.
- 4.5 The Board shall appoint the chairman of the Committee. In the absence of the Committee chairman and/or an appointed deputy, the remaining members present at a meeting shall elect one of their number present to chair the meeting.
- 4.6 The Committee chairman shall review membership of the Committee annually, as part of the annual performance evaluation of the Committee.
- 4.7 The Society Secretary, or their nominee, shall act as the Secretary of the Committee and provide all necessary support to the Committee, including the recording of Committee minutes and ensuring that the Committee receives information and papers in a timely manner to enable full and proper consideration of the relevant issues.

5. QUORUM

- 5.1 The quorum necessary for the transaction of business at a Committee meeting shall be two members (including, whenever possible, at least one member with recent and relevant financial experience), present in person or by audio or video conference. If there is difficulty in achieving a quorum, independent Non-Executive Directors, who are not members of the Committee, may be co-opted as members for individual meetings.
- 5.2 A duly convened Committee meeting 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.

6. ATTENDANCE AT MEETINGS

- 6.1 The Committee shall meet at least four times a year.
- 6.2 Outside of the formal meeting programme, the Committee chairman shall maintain a dialogue with key individuals involved in the Society's governance, including the Board Chairman, the Chief Executive, the Chief Financial Officer, the External Audit Lead Partner and a representative from Internal Audit.
- 6.3 Only Committee members have the right to attend and vote at Committee meetings. However, the external auditor, Chief Executive, Chief Financial Officer and a representative from internal audit shall be invited to attend and address meetings of the Committee on a regular basis and other non-members may be invited to attend all or part of any meetings as and when appropriate and necessary.
- 6.4 The Secretary of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.5 Meetings of the Committee may be conducted when the members are physically present together or in the form of either video or audio conferences.

7. NOTICE OF MEETINGS

- 7.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or at the request of the Chief Executive, Chief Financial Officer, External Audit lead partner or a representative from Internal Audit.
- 7.2 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.

8. VOTING ARRANGEMENTS

- 8.1 Each Committee member shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a Committee meeting (whether in person or by audio or video conference).
- 8.2 If a matter that is considered by the Committee is one where a Committee member, either directly or indirectly has a personal interest, that member shall not be permitted to vote at the meeting.
- 8.3 Except where he or she has a personal interest, the Committee Chairman shall have a casting vote.
- 8.4 The Committee Chairman may ask any attendees of a Committee meeting to leave the meeting to allow discussions of matters relating to them.

9. MINUTES OF MEETINGS

- 9.1 The Society Secretary (or their nominee) shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.

9.2 A resolution in writing and signed by all Committee members will be as effective as a resolution passed at a Committee meeting. Any written resolution shall be tabled and noted at the next meeting of the Committee.

10. ANNUAL GENERAL MEETING

10.1 The Committee Chairman shall attend the Annual General Meeting to answer shareholder questions on the Committee's activities and areas of responsibility and to deal with any questions relating to the resignation or dismissal of the external auditor.

11. REPORTING RESPONSIBILITIES

The Committee shall:

11.1 Report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

11.2 Make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

11.3 Make available to members these terms of reference by placing them on the Society's website.

12. GENERAL MATTERS

The Committee shall:

12.1 Consider other duties determined by the Board from time to time.

12.2 Have access to sufficient resources in order to carry out its duties, including access to the Society Secretary as required.

12.3 Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members.

12.4 Give due consideration to all applicable laws and regulations..

12.5 Work and liaise as necessary with all other Board Committees.

12.6 Arrange for periodic reviews of its own performance and, at least annually review its terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

13. AUTHORITY

The Board authorises the Committee to:

13.1 Carry out all duties set out in these terms of reference, to have unrestricted access to the Society's documents and information and to obtain, at the Society's expense, appropriate professional advice on any matter within its terms of reference as it considers necessary.

13.2 Seek any information it requires from any employee of the Society to perform its duties.

13.3 Secure the attendance of external advisers at its meetings if it considers this necessary, at the Society's expense.

13.4 Call any employee to be questioned at a Committee meeting as and when required.