



## AUDIT COMMITTEE

### Terms of Reference

#### 1. Constitution

The Audit Committee (the Committee) was established by a resolution of the Board on 20 February 1987. The terms of reference were last revised and approved by the Board on 22 July 2011.

#### 2. Membership

- 2.1 The Committee shall be appointed by the Board and shall consist of no less than four members.
- 2.2 The membership shall comprise Non-Executive Directors only, one of whom shall be the Independent Professional Non-Executive Director. A member's alternate may attend meetings in the absence of that member.
- 2.3 At least one Director of the Committee shall have recent and relevant financial experience.
- 2.4 Appointments shall be for a period of up to three years, extendable by no more than two additional three-year periods.
- 2.5 The Chairman of the Committee shall be appointed by the Board.
- 2.6 The Secretary, or such person as the Secretary may recommend to the Board of Unity Trust Bank, shall be the Secretary of the Committee and shall circulate the minutes of the meeting to the Committee.

#### 3. Quorum

A quorum shall be two members. This will be one 'B' Director and one of either an 'A' Director or the Independent Professional Non-Executive Director.

#### 4. Proceedings of the Committee

- 4.1 No one other than the Committee Chairman and its members shall attend meetings of the Committee, unless at the invitation of the Chairman. Such invitees may include the Managing Director, Finance Director and the Head of Unity Trust Bank Internal Audit. It is expected that the Director of CFS Internal Audit and the External Auditor shall attend meetings. Other Board members may, by prior agreement with the Chairman, attend as observers, and participate in a meeting, but they will not be counted towards the quorum. However, the Committee shall have the right to meet without other Directors present if it so decides.
- 4.2 At each Committee meeting the Committee shall have the opportunity to meet with the Head of internal audit and/or the external auditor without the presence of executive management to discuss any matters that any of these parties believe should be discussed privately.
- 4.3 The Chairman shall communicate on a continuing basis with key individuals responsible for governance within Unity Trust Bank.

- 4.4 An audit calendar shall be determined to underpin compliance with the revised Combined Code.
- 4.5 The terms of reference of the Committee shall be made publicly available, explaining the role and authority delegated to the Committee by the Board.

## **5. Frequency of Meetings**

- 5.1 Meetings shall be held no fewer than four times a year or more frequently as circumstances require.
- 5.2 The Chairman of the Committee shall convene a meeting upon the request of any Committee member who considers it necessary or at the request of external or internal auditors if they consider it necessary.

## **6. Annual General Meeting**

The Chairman of the Committee shall attend the Annual General Meeting and be prepared to respond to any member/shareholder questions on the Committee's activities.

## **7. Authority**

- 7.1 The Committee is authorised by the Board to investigate any activity within its terms of reference and seek information that it requires from any employees of Unity Trust Bank all of whom are directed to co-operate with any respect made by the Committee.
- 7.2 The Committee is authorised to engage any firm of accountants, lawyers or other professionals as the Committee sees fit to provide independent advice and to assist in any review or investigation on such matters as the Committee deems appropriate.

## **8. Responsibilities**

The responsibilities of the Committee for oversight and advice to the Board are set out below:

### **Financial Statements and Annual Reports**

- 8.1 Review and discuss with management and auditor(s) the preliminary results, interim information and annual financial statements before submission to the Board, focussing particularly on:
  - the quality and acceptability of the accounting policies and practices and financial reporting disclosures and changes thereto;
  - areas involving significant judgement, estimation or uncertainty;
  - material misstatements detected by the auditors that individually or in aggregate have not been corrected and management's explanations as to why they have not been adjusted;
  - the basis for any ongoing concern assumption; and
  - compliance with financial reporting standards and relevant financial, regulatory and governance requirements;
- 8.2 Discuss any difficulties, reservations or other matters arising from the external auditors' review of the interim and final results (in the absence of management where necessary);
- 8.3 Review, prior to its consideration by the Board, the external auditors' reports to the Directors and management's response.

- 8.4 Agree the disclosure about the role of the Committee which is included in the Annual Reports embracing the principles and guidance of the UK Corporate Governance Code.
- 8.5 Whilst recognising the primary responsibility of the full board for the management of risk, review the Bank Risk Summary report to ensure adequate description of the following:
- risk strategy with reference to key risk exposures inherent within that strategy.
  - The associated risk appetite and tolerance and how risk appetite is assessed over time in relation to exposures.
  - The effectiveness of the management process over exposures.
  - High level information on scope & outcomes of stress testing.
  - Committee membership, meeting frequency and whether external advice has been taken by the Committee.

### **Internal Control and Risk Management**

- 8.6 Review the annual statements on internal control and their compliance with the UK Corporate Governance Code (June 2010) or subsequent corporate governance guidance (as applicable) prior to consideration by the Board; and in particular, where requested by the Board, to review and challenge where necessary:
- the policies and overall process for identifying and assessing business risks and managing their impact on the organisation and its operations as required by FSA rules
  - regular assurance reports from management, internal audit, external audit, risk management; including Turnbull control self assessments and others on the operational effectiveness of matters related to the adequacy of controls within risk appetites;
  - the timeliness of, and reports on, the effectiveness of corrective action taken by management; and
  - whether the principles of the UK Corporate Governance Code or other relevant guidance have been embedded within the organisation;
- 8.7 Receive report on activities and note the minutes of the Executive Risk Review Committee
- 8.8 Consider any necessary disclosure implications of the process that has been applied by the Board to deal with material internal control aspects of any significant problems disclosed in the annual reports and accounts.
- 8.9 The Committee shall review arrangements by which staff may, in confidence, raise concerns about possible wrong doing in financial reporting or other matters (Whistleblowing). The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

### **Regulatory Compliance**

- 8.10 Consider regular reports and issues in respect of regulatory compliance matters, in particular;
- Financial Crime, Money Laundering and Fraud reporting
  - Provide assurance that Unity Trust Bank is compliant with legal and regulatory obligations

### **External Auditor**

- 8.11 On the recommendation of the CFS Audit Committee make recommendations to the Board to be put to the members for approval at the AGM in relation to the appointment, re-appointment and removal of the external auditor. If the Board does not accept the Committee's recommendation, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the Committee explaining the recommendation and should set out reasons why the Board has taken a different position;
- 8.12 Assess the qualification, expertise, resources, effectiveness and independence of the external auditor annually, which shall include a report from the external auditor on their own internal quality procedures;
- 8.13 Approve the terms of engagement and the remuneration to be paid to the external auditor in respect of the audit services provided;
- 8.14 Satisfy itself that the level of fees payable in respect of the audit service are appropriate and that an effective audit can be carried out for such a fee;
- 8.15 Monitor the external audit firm's compliance with applicable UK ethical guidance relating to rotation in partners, fees in proportion to the overall fee income of the firm, office and partner;
- 8.16 Discuss with the external auditor the nature and scope of the audit (including any significant ventures, investments or operations which are not subject to audit) and to ensure effective co-ordination if more than one external audit firm is involved;
- 8.17 Receive annual declarations from the external auditors regarding any family, financial, employment, investment or business relationship with Unity Trust Bank; and their policies on maintaining their independence;
- 8.18 If the external auditor resigns, the Committee will investigate the issues giving rise to such resignation and consider whether any action is required;
- 8.19 Consider communications from the external auditor on audit planning and findings on material weaknesses in accounting and internal control systems that came to the auditor's attention;
- 8.20 Agree and monitor the application of the formal policy for non-audit work set by Co-operative Group Audit and Risk Committee for Unity Trust Bank.
- 8.21 At least once a year meet with the external auditors without Executive Directors or other management present.

### **Internal Audit**

- 8.22 Approve and periodically review the terms of reference of the Internal Audit function;
- 8.23 Review and approve its scope of work and its annual audit plan;
- 8.24 Review and discuss with the Head of Internal Audit the issues identified as a result of internal audit work and how management is addressing these issues;
- 8.25 Receive reports on management's response to audit recommendations;
- 8.26 Consider and approve the remit of the internal audit 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 standing and is free from management or other restrictions which may impair the independence of internal audit;
- 8.27 Consider issues relating to the appointment, resignation or dismissal of the Head of Internal Audit and the Chair to approve any changes to the remuneration of the Head of Internal Audit as recommended by management;

- 8.28 Review co-ordination between the internal and external auditors and, the risk review function;
- 8.29 Meet with the Head of Internal Audit at least once a year without the presence of management;
- 8.30 Monitor and assess the role and effectiveness of the Internal Audit function.
- 8.31 Consider the major findings of any relevant internal investigations into control weaknesses, fraud or misconduct and management's response (in absence of management where necessary).

#### **Other Matters**

- 8.32 Annually review and update its Terms of Reference requesting Board approval for all proposed changes at appropriate intervals, evaluate its own performance against its terms of reference and best practice.
- 8.33 Ensure that an induction programme is provided for new members.
- 8.34 Ensure that ongoing training is provided to members and shall include an understanding of the principles of and development in financial reporting, company law and regulatory requirements.
- 8.35 Consider other disclosures, documents or topics, as determined by the Board from time to time.
- 8.36 These terms of reference of the Committee shall be made publicly available explaining the role and authority delegated to the Committee by the Board.
- 8.37 An audit calendar shall be determined to underpin compliance with the UK Corporate Governance Code.

### **9 Reporting lines**

- 9.1 The Chairman of the Committee shall report, or ensure that a report is made, on Committee business to:
  - The Unity Trust Board with such recommendations as the Committee may deem appropriate;
  - Co-operative Financial Services Audit Committee with such recommendations as this Committee may deem appropriate.
- 9.2 The external auditors will issue written reports to the Board, which will be circulated in advance of the Board Meetings at which the external auditors will be in attendance (as appropriate).
- 9.3 The minutes of the meeting shall be provided to the Unity Trust Board

### **10 Management Information Requirements**

The Secretary of the Committee will normally circulate the agenda and papers for meetings at least seven clear days before the meeting.