

Shared Interest

Audit Committee Terms of Reference

Introduction

These Terms of Reference for the Shared Interest Audit Committee take account of the provisions of the Combined Code on Corporate Governance (July 2003), and the recommendations of the Guidance on Audit Committees usually known as the Smith Report. Adjustments have been made to reflect Shared Interest's identity as a financial cooperative and its size.

The Combined Code states that:

"The board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors".

The Combined Code goes on to say that the main role and responsibilities of the Audit Committee should be "set out in written terms of reference."

Such statements express a clear need for an Audit Committee, the requirement for which is also supported by other influential organisations such as the Commonwealth Association for Corporate Governance and the International Corporate Governance Network.

The Smith Report recognises that:

"Audit committee arrangements need to be proportionate to the task, and will vary according to the size, complexity and risk profile of the company".

As with most aspects of corporate governance, the above principles make it clear that, not only should organisations go through a formal process of considering their audit and control procedures and evaluating their relationship with their external auditor, but they must be seen to be doing so in a fair and thorough manner. It is, therefore, essential that the Audit Committee is properly constituted with a clear remit and identified authority.

While much of the guidance on Audit Committees is aimed primarily at the corporate sector, the principles of good governance, including the introduction of Audit Committees, is increasingly being recognised and adopted by other organisations particularly in the public and not for profit sectors.

Terms of Reference

Reference to “the Committee” shall mean the Audit Committee.

Reference to “the board” shall mean the board of directors.

1. Membership

- 1.1 Members of the Committee shall be appointed by the board, on the recommendation of the Nomination Committee (or if no nomination committee is standing the Moderator of the Society) in consultation with the Chair of the Audit Committee. The Committee shall be made up of at least two and not more than four members.
- 1.2 All members of the Committee shall be independent non-executive directors, at least one of whom shall have recent and relevant financial experience. The Moderator of the board shall not be a member of the Committee.
- 1.3 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Moderator of the board, Managing Director, other directors, senior managers and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate.
- 1.4 The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 1.5 Appointments to the Committee shall be for a period of up to three years, which may be extended for up to two further three year periods, provided the director remains independent, up to a maximum of eight years.
- 1.6 The board shall appoint the Committee Chair who shall be an independent non-executive director. In the absence of the Committee Chair, the remaining members present shall elect one of themselves to chair the meeting.
- 1.7 The Committee shall decide whether the Company Secretary, or some other person, shall act as the secretary of the Committee.

2. Quorum

- 2.1 The quorum necessary for the transaction of business shall be two members, present in person or through telephonic or other communication.

3. Frequency of Meetings

- 3.1 The Committee shall meet at least twice a year at appropriate times in the reporting and audit cycle and otherwise as required.

4. Notice of Meetings

- 4.1 Meetings of the Committee shall be summoned by the Chair or the secretary of the Committee or at the request of the external auditors if they consider it necessary.
- 4.2 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 five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

5. Minutes of Meetings

- 5.1 The secretary of the Committee shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 5.2 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the board.

6. Annual General Meeting

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

7. Duties

7.1 Financial Reporting

The Committee shall monitor the integrity of the financial statements and any other formal announcement relating to financial performance, reviewing significant financial reporting issues and judgements which they contain. The Committee shall also review any summary financial statements or significant financial returns to regulators.

The Committee shall review and challenge where necessary:

- the consistency of, and any changes to, accounting policies;
- the methods used to account for significant or 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 statements are made;
- all material information presented with the financial statements, such as corporate governance statements (insofar as they relate to the audit and risk management);

7.2 Internal Controls and Risk Management Systems

The Committee shall:

- keep under review the effectiveness of the Society's internal controls and risk management systems; and
- review and approve the statements to be included in the annual report concerning internal controls and risk management.

7.3 Whistleblowing

The Committee shall review the Society's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

7.4 Internal Audit

The Committee shall consider annually whether there should be an internal audit function and make recommendation to the board accordingly.

If the Society establishes an internal audit function, then the Committee shall:

- monitor and review the effectiveness of the Society's internal audit function in the context of the Society's overall risk management system;
- approve the appointment and removal of the head of the internal audit function;
- 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 relevant professional standards;
- ensure that the function has adequate standing and is free from management or other restrictions;
- review and assess the annual internal audit plan;
- review promptly all reports on the Society from the internal auditors;
- review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
- meet the head of internal audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the Moderator of the board and to the Committee.

7.5 External Audit

7.5.1 The Committee shall consider and make recommendations to the board, to be put to members for approval at the AGM, in relation to the appointment, re-appointment and removal of the Society's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required.

7.5.2 The Committee shall oversee the relationship with the external auditor including (but not limited to):

- approval of their remuneration, 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 any engagement letter issued at the start of each audit and the scope of the audit;

- assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
- satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the company (other than in the ordinary course of business), or that any such relationships are appropriately managed;
- agreeing with the board a policy on the employment of former employees of the company's auditor, then monitoring the implementation of this policy;
- monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Society compared to the overall fee income of the firm, office and partner and other related requirements; and
- assessing annually their qualifications, expertise and resources and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures.

7.5.3 The Committee shall 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 also meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit.

7.5.4 The Committee shall review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, and shall review the findings of the audit with the external auditor. This shall include a discussion of:

- any major issues which arose during the audit;
- any accounting and audit judgements; and
- levels of errors identified during the audit.

7.5.5 The Committee shall also review the effectiveness of the audit, and will:

- review any representation letter(s) requested by the external auditor before they are signed by management;
- review the management letter and management's response to the auditor's findings and recommendations; and
- develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

7.6 Reporting Responsibilities

The Committee shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities.

The Committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.

The Committee shall compile a report to members on its activities, to be included in the company's annual report. This report should include:

- The role and main responsibilities of the Audit Committee;
- The composition of the Committee;
- The number of meetings and attendance levels;
- A description of the main activities of the year to:
 - Monitor the integrity of the financial statements;

- Review the integrity of the internal financial control and risk management systems;
- Review the independence of the external auditors, and the provision of non-audit services;
- Describe the oversight of the external audit process, and how its effectiveness was assessed;
- Explain any recommendation to the board on the appointment of auditors.

The terms of reference of the Committee, explaining its role and the authority delegated to it by the board, should be made available on request and placed on the Society's website.

7.7 Other Matters

The Committee shall:

- have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- give due consideration to laws and regulations, the provisions of the Combined Code and other appropriate guidelines;
- oversee any investigation of activities which are within its terms of reference and act as a court of the last resort; and
- at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval.

8. Authority

The Committee is authorised:

- 8.1 to seek any information it requires from any employee in order to perform its duties;
- 8.2 to obtain, at the Society's expense, outside legal or other professional advice on any matter within its terms of reference; and
- 8.3 to call any employee to be questioned at a meeting of the Committee as and when required.

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