

STOCKPORT CREDIT UNION TERMS OF REFERENCE TO THE AUDIT COMMITTEE

1. GENERAL

- 1.1. The Audit Committee is a committee of the Board of the Stockport Credit Union.
- 1.2. The Audit Committee considers matters in relation to:
 - 1.2.1. Ensuring effective and independent internal and external audit procedures;
 - 1.2.2. Providing the Board with a continuous appraisal of overall effectiveness of the control systems and approach to risk management; and
 - 1.2.3. Challenging the assumptions of published financial information pertaining to the operations of the Credit Union
- 1.3. The Audit Committee reports to the Board of the Credit Union and conducts its business in accordance with the Rules, these Terms of Reference, any applicable legislation and the Credit Union's Policies, Principles and Values.

2. MEMBERSHIP

- 2.1. The Committee shall comprise at least two Board members. Membership and the Chairman of the committee will be determined by the Board of the Credit Union taking into account the recommendations of the Nominations Committee.
- 2.2. All Board members of the committee shall be independent non-executive directors at least one of whom shall have recent and relevant financial experience and with competence in accounting and/or auditing. The Chairman of the Board shall not be a member of the committee.
- 2.3. The Audit committee will allow a minimum of two members of the Credit Union to be lay members of the Audit Committee to enable additional membership oversight.
- 2.4. Only Board members of the committee have the right to attend committee meetings but other individuals will be invited to attend whole or part of the meeting if appropriate.

3. MEETINGS

- 3.1. The Chairman of the committee will chair each meeting of the Audit Committee. In the case of the absence of the Chairman the members of the Committee present will elect one of their number to chair the meeting.
- 3.2. The committee will meet at least four times a year at appropriate intervals in the financial reporting and audit cycle and at such other times as required.
- 3.3. The date and time of any meeting will not be changed without all members of the committee being given at least one week's notice of any such revision.
- 3.4. A quorum will consist of two board members. Board members may be present in person or through any other means of communication but to count towards a quorum Board members must be able fully to hear and participate in the committee's proceedings.
- 3.5. For the avoidance of doubt, lay members will not count towards a quorum.
- 3.6. The content of the agenda for each meeting shall be drafted by the Chairman of the committee.
- 3.7. The agenda and papers for each meeting of the committee will be circulated to members of the committee at least one week prior to the meeting. Papers not complying with these requirements will not be tabled at the meeting except in exceptional circumstances, and only then after the prior approval of the Chairman.
- 3.8. The Chairman may vote on any issue as an ordinary member of the Committee. If having done so the voting is level they may if they so decide exercise an additional casting vote to decide the issue.

- 3.9. The Chairman of the committee will act as Secretary to the committee. The Secretary is responsible for producing Minutes of the committee meetings. The Minutes will be circulated to all committee members within two weeks of each meeting unless otherwise agreed.
- 3.10. Outside of the formal meeting programme, the committee chairman, and to a lesser extent the other committee members, will maintain a dialogue with key individuals involved in the Credit Union's governance, including the board chairman, the chief executive, the treasurer and/or assistant treasurer if the position is held, the external audit lead partner and the internal audit lead partner.
- 3.11. The committee chairman should attend the annual general meeting to answer member questions.

4. MAIN FUNCTIONS

4.1. Financial Reporting

- 4.1.1. The committee shall monitor the integrity of the financial statements of the Credit Union and any other formal statements relating to its financial performance, and review and report to the board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor.
- 4.1.2. In particular, the committee shall review and challenge where necessary:
 - 4.1.2.1. the application of significant accounting policies and any changes to them;
 - 4.1.2.2. the methods used to account for significant or unusual transactions where different approaches are possible;
 - 4.1.2.3. whether the Credit Union has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements; and
 - 4.1.2.4. all material information presented with the financial statements, including any strategic report and corporate governance statements relating to the audit and to risk management.
- 4.1.3. Where requested the committee shall review any other statements requiring board approval which contain financial information first, where to carry out a review prior to board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation.
- 4.1.4. Where the committee is not satisfied with any aspect of the proposed financial reporting by the company, it shall report its views to the board.

4.2. Narrative Reporting

- 4.2.1. Where requested by the board, the committee should 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 Credit Union's performance, business model and strategy and whether it informs the board's statement in the annual report on these matters.

4.3. Internal controls and risk management systems

The committee shall:

- 4.3.1. keep under review the Credit Union's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems;
- 4.3.2. review and approve any statements to be included in the annual report concerning internal control and risk management;
- 4.3.3. receive and review quarterly reports on the risk register from the appointed Risk Management Officer (RMO) and make recommendations for changes to the Board;
- 4.3.4. review annually the Credit Union's Risk Management Policy and make recommendations to the Board on the matters of the appropriateness of the risk management strategy, risk appetite, and risk management culture; and
- 4.3.5. provide recommendations to the Board on the potential risks of embarking on significant new initiatives or changes in strategy.

4.4. Compliance, whistleblowing and fraud

The committee shall:

- 4.4.1. review the adequacy and security of the company's arrangements for its board members, employees, volunteers and contractors 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;
- 4.4.2. review the Credit Union's procedures for detecting fraud;
- 4.4.3. review the Credit Union's systems and controls for the prevention of bribery and receive reports on non-compliance; and
- 4.4.4. review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the company's anti-money laundering systems and controls

4.5. Internal audit

The committee shall:

- 4.5.1. Consider and make recommendations to the board as to the appointment or termination of appointment of any third party internal auditor;
- 4.5.2. review and approve the annual internal audit plan to ensure it is aligned to the key risks of the business, and receive regular reports on work carried out;
- 4.5.3. ensure internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan, and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 4.5.4. ensure the internal auditor has direct access to the board chairman and to the committee chairman, providing independence from the executive and accountability to the committee;

- 4.5.5. carry out an annual assessment of the effectiveness of the internal audit function; and as part of this assessment:
 - 4.5.5.1. meet with the head of internal audit without the presence of management to discuss the effectiveness of the function;
 - 4.5.5.2. review and assess the annual internal audit work plan;
 - 4.5.5.3. receive a report on the results of the internal auditor's work;
 - 4.5.5.4. determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and
 - 4.5.5.5. review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function;
- 4.5.6. monitor and assess the role and effectiveness of the internal audit function in the overall context of the Credit Union's risk management system and the work of compliance, finance and the external auditor.

4.6. External Audit

The committee shall:

- 4.6.1. consider and make recommendations to the board, to be put to members for approval at the annual general meeting, in relation to the appointment, re-appointment and removal of the Credit Union's external auditor;
- 4.6.2. develop and oversee the selection procedure for the appointment of the audit firm, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process;
- 4.6.3. if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 4.6.4. oversee the relationship with the external auditor. In this context the committee shall:
 - 4.6.4.1. recommend approval of their remuneration to the Board, including both fees for audit and non-audit services, and ensure that the level of fees is appropriate to enable an effective and high-quality audit to be conducted; and
 - 4.6.4.2. approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- 4.6.5. assess annually the external auditor's independence and objectivity taking into account relevant UK law, regulation, the Ethical Standard and other professional requirements and the group's relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services;
- 4.6.6. satisfy itself that there are no relationships between the auditor and the Credit Union (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- 4.6.7. agree with the board a policy on the employment of former employees of the Credit Union's auditor, taking into account the Ethical Standard and legal requirements, and monitor the application of this policy;
- 4.6.8. monitor the auditor's processes for maintaining independence, its compliance with relevant UK law, regulation, other professional requirements and the Ethical Standard, including the guidance on the rotation of audit partner and staff;

- 4.6.9. monitor the level of fees paid by the Credit Union to the external auditor compared to the overall fee income of the firm, office and partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standard;
- 4.6.10. assess annually the qualifications, expertise and resources, and independence of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
- 4.6.11. seek to ensure coordination of the external audit with the activities of the internal audit function;
- 4.6.12. evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the committee;
- 4.6.13. develop and recommend to the board the Credit Union's formal policy on the provision of non-audit services by the auditor, including approval of non-audit services by the committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:
 - 4.6.13.1. threats to the independence and objectivity of the external auditor and any safeguards in place;
 - 4.6.13.2. the nature of the non-audit services;
 - 4.6.13.3. whether the external audit firm is the most suitable supplier of the non-audit service;
 - 4.6.13.4. the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
 - 4.6.13.5. the criteria governing compensation;
- 4.6.14. 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, meet with the external auditor without management being present, to discuss the auditor's remit and any issues arising from the audit;
- 4.6.15. discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- 4.6.16. review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
 - 4.6.16.1. a discussion of any major issues which arose during the audit;
 - 4.6.16.2. the auditor's explanation of how the risks to audit quality were addressed;
 - 4.6.16.3. key accounting and audit judgements;
 - 4.6.16.4. the auditor's view of their interactions with senior management; and
 - 4.6.16.5. levels of errors identified during the audit;
- 4.6.17. review any representation letter(s) requested by the external auditor before they are signed by management;
- 4.6.18. review the management letter and management's response to the auditor's findings and recommendations; and
- 4.6.19. review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the committee.

4.7. REGISTER OF INTERESTS & RELATED PARTY TRANSACTIONS

The committee shall:

- 4.7.1. Review any loans made to members of the Board of Directors, Officers, Approved Persons, and employees of the Credit Union.
- 4.7.2. Review the Board register of interests at regular intervals and evaluate any threats to member interest.
- 4.8. Any other duties as assigned by the Board in so far as they relate to the purpose of the Audit Committee.

5. STANDARDS

- 5.1. It is the responsibility of the committee to monitor, in regards to auditing performance reporting and governance that the committee follows appropriate good practice as laid down in the Credit Union's Policies, Principles and Values.
- 5.2. The committee should take due regard of regulatory requirements and guidelines, applicable legislation and the Credit Union's business needs in its deliberations.

6. REPORTING

- 6.1. The Chairman of the committee shall report formally to the Board on the committee's proceedings after each meeting or more frequently if they deem it appropriate.
- 6.2. The committee will make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 6.3. The committee shall compile a report on its activities to be included in the Credit Union'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 auditor.
- 6.4. In compiling the reports referred to in 6.3, 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 that have informed the board's assessment of whether the Credit Union is a going concern. The report to members need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.
- 6.5. The committee shall 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.

7. AUTHORITY

- 7.1. The committee is authorised to;
 - 7.1.1. Seek any information it requires from any employee or volunteer of the Credit Union in order to perform its duties.
 - 7.1.2. Oversee any investigation of activities which are within its Terms of Reference.
 - 7.1.3. Call any employee or volunteer to be questioned at a meeting of the committee as and when required
 - 7.1.4. Have the right to publish in the Credit Union's annual report, details of any issues that cannot be resolved between the committee and the board.
- 7.2. Following the prior approval of the Chairman of the Credit Union which will not reasonably be withheld a committee member is authorised to obtain at the Credit

Union's reasonable expense outside legal or professional advice on any matters within these Terms of Reference.

8. CHANGES IN CIRCUMSTANCES AND OTHER INTERESTS

- 8.1. Committee members will adhere to the Credit Union's Rules and relevant legislation or regulation.
- 8.2. All committee members are required to notify the Company Secretary of all other bodies in which they have a significant interest or of which they are an Employee, Director, Partner, Trustee or for which they perform a similar role.
- 8.3. Whenever a committee member finds themselves in a situation that is reasonably likely to give rise to a Conflict of Interest, they must declare their interest to the committee unless, or except to the extent that, the other committee members are or ought reasonably to be aware of it already.
- 8.4. If any question arises as to whether a committee member has a Conflict of Interest, the question shall be decided by a majority decision of the other members of the committee.
- 8.5. All declarations of conflicts of interest shall be recorded in the Minutes of the meeting.
- 8.6. Whenever a committee member has a Conflict of Interest in the subject matter under discussion then they shall:
 - 8.6.1. Remain only for such part of the meeting as in the view of the other committee members is necessary to inform the debate;
 - 8.6.2. Not be counted in the quorum for that part of the meeting; and
 - 8.6.3. Withdraw from the meeting during the vote and have no vote on the matter.
- 8.7. When a committee member has a Conflict of Interest which he or she has declared to the committee, he or she shall not be in breach of his or her duties to the Credit Union by withholding confidential information from the Credit Union if to disclose it would result in a breach of any other duty or obligation of confidence owed by him or her.
- 8.8. All Committee members are required to notify the Company Secretary of any changes in circumstances which may affect their ability to perform their role as a member of the Audit Committee.

Approved by the Board 21 May 2019

Company Secretary