

## **Andium Homes Risk and Audit Committee**

### **Terms of Reference**

#### **1. Membership**

- 1.1 The Committee shall comprise at least three members who shall be independent non-executive directors.
- 1.2 The Chief Finance & Operations Officer shall be in attendance at all meetings. Others, including external advisors, may be invited to attend for all or part of any meeting, as and when appropriate and necessary.
- 1.3 Appointments to the Committee are made by the Board and shall be for a period of up to three years extendable by no more than two additional three year periods, so long as the members continue to be independent. Extensions to appointments will be at the discretion of the Board.
- 1.4 The Board shall appoint the Committee Chair who shall be an independent non-executive director.

#### **2. Secretary**

The Company Secretary shall act as the secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

#### **3. Quorum**

The quorum necessary for the transaction of business shall be two.

#### **4. Meetings**

- 4.1 The Committee shall meet three times a year and otherwise as required, at appropriate intervals in the financial reporting and audit cycle.
- 4.2 Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Company's governance, including the Board Chair, the Chief Executive, the Chief Finance & Operations Officer, the Head of Internal Control and the external audit lead director.

#### **5. Notice of Meetings**

- 5.1 Meetings of the Committee shall be called by the Company Secretary at the request of any of the members.

5.2 Unless otherwise agreed, notice of each meeting, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any 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.

## **6. Minutes of Meetings**

6.1 The Company Secretary shall minute the proceedings and resolutions of all committee meetings, including the names of those present and in attendance.

6.2 Draft minutes of committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board unless in the opinion of the Committee Chair it would be inappropriate to do so.

## **7. Annual General Meeting**

7.1 The Committee Chair should attend the annual general meeting to answer any shareholder questions on the Committee's activities.

## **8. Duties**

The Committee shall:

### Risk

8.1 Advise the Board on the Company's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment, and other sources that may be relevant for the Company's risk management policy.

8.2 Oversee and advise the Board on the current risk exposures of the Company and risk aspects of changes to strategy.

8.3 In relation to the Company's risk management and internal control systems:

8.3.1 Keep under review the Company's overall risk assessment processes that inform the Board's decision making, ensuring both qualitative and quantitative metrics are used.

8.3.2 Review regularly and approve the parameters used in these measures and the methodology adopted.

8.3.3 Set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance.

8.4 Review the Company's capability to identify and manage new risk types.

8.5 Before a decision to proceed is taken by the Board, ensure that a due diligence appraisal of the proposition is undertaken, focussing in particular on risk and compliance aspects and implications for the risk appetite and tolerance of the Company, and taking independent external advice where appropriate.

- 8.6 Review reports on any material breaches of risk limits and the adequacy of proposed action.
- 8.7 Keep under review the effectiveness of the Company's internal financial and non-financial controls against best practice and review and approve the statements to be included in the annual report concerning internal controls.
- 8.8 Provide qualitative and quantitative advice to the Remuneration and People Committee on risk weightings to be applied to performance objectives incorporated in executive remuneration.
- 8.9 Consider and approve the remit of the internal control 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 independence and is free from management and other restrictions.
- 8.10 Work and liaise as necessary with all other Board committees.
- 8.11 Ensure that the internal control framework and decisions of the Committee are effectively understood and actioned by the business. Monitor that risk management is embedded effectively in the organisation and feedback and learning is reported to the Committee.

#### 8.12 Financial Reporting

- 8.12.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual reports, and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues, and judgements which they contain having regard to matters communicated to it by the auditor.
- 8.12.2 In particular, the Committee shall review and challenge where necessary:
- The consistency of, and any changes to, significant accounting policies both on a year on year basis and across the Company;
  - The methods used to account for significant or unusual transactions where different approaches are possible;
  - Whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - The clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and

- All material information presented with the financial statements, such as the business review and the corporate governance statements relating to the audit and to risk management.

8.12.3 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.

#### 8.13 Narrative reporting

8.13.1 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 shareholders to assess the Company's performance, business model and strategy.

8.13.2 Assist the Board in fulfilling its reporting responsibilities in the annual report to monitor and review the effectiveness of the Company's risk management and internal control systems.

8.13.3 Review the Company's procedures to manage or mitigate principal risks and to identify emerging risks, to assist the boards assessment of principal risks and emerging risks.

#### 8.14 Compliance, whistleblowing and fraud

The Committee shall:

8.14.1 Review the adequacy and security of the Company's arrangements for its employees 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.

8.14.2 Review the Company's procedures for detecting fraud.

8.14.3 Review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

#### 8.15 Compliance function

The Committee shall:

8.15.1 Review and approve the scope of the compliance function and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate.

8.15.2 Ensure the Head of Internal Control has direct access to the Board Chair and to the Committee Chair and is accountable to the Committee.

8.15.3 Review and assess the annual compliance work plan.

- 8.15.4 Receive a report on the results of the compliance function on a periodic basis.
- 8.15.5 Review and monitor management's responsiveness to the compliance function findings and recommendations.
- 8.15.6 Meet with the Head of Internal Control at least once a year without the presence of management and monitor and review the effectiveness of the Company's compliance function, in the context of the Company's overall risk management system.

#### 8.16 Internal Audit

- 8.16.1 The Risk and Audit Committee should review and approve its role and mandate; approve the annual internal audit plan; and monitor and review the effectiveness of its work. The Committee should review and annually approve the internal audit charter to ensure that it is appropriate to the current needs of the organisation.
- 8.16.2 The Committee should ensure that the internal audit plan is aligned to the key risks of the business.
- 8.16.3 The Committee should ensure that the function has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate and is equipped to perform in accordance with appropriate professional standards for internal auditors.
- 8.16.4 In undertaking a review of effectiveness of the internal audit function the Risk and Audit Committee should confirm that it is satisfied that the quality, experience and expertise of the function is appropriate for the business. The Committee should also consider the actions management has taken to implement the recommendations of the function and whether these properly support the effective working of the internal audit function.
- 8.16.5 In its annual assessment of the effectiveness of the internal audit function the Risk and Audit Committee should:
- Meet with the Head of Internal Control without the presence of management to discuss the effectiveness of the function;
  - Review and assess the annual internal audit work plan;
  - Receive a report on the results of the internal auditors' work; and
  - Monitor and assess the role and effectiveness of the internal audit function in the overall context of the Company's risk management system.

## 8.17 External Audit

The Committee shall:

- 8.17.1 Consider and make recommendations to the Board, to be put to the shareholder for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditor.
- 8.17.2 Ensure that at least once every three 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. 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 duration of the tendering process.
- 8.17.3 If an auditor resigns, investigate the issues leading to this and decide whether any action is required.
- 8.17.4 Oversee the relationship with the external auditor including (but not limited to):
  - Recommendations on their remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality 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) which could adversely affect the auditor's independence and objectivity.
  - Agreeing with the Board a policy on the employment of former employees of the Company's auditor and monitoring the implementation of this policy.
  - Monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements.
  - Assessing annually 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.
  - Seek to ensure coordination of the external audit with the activities of the internal audit function.

- Evaluating 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 their auditor from the market in that evaluation.
- 8.17.5 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 management being present, to discuss the auditor's remit and any issues arising from the audit:
- 8.17.6 Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team.
- 8.17.7 Review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- A discussion of any major issues which arose during the audit.
  - Key accounting and audit judgements.
  - Levels of errors identified during the audit.
  - The effectiveness of the audit process.
- 8.17.8 Review any representation letter(s) requested by the external auditor before they are signed by management.
- 8.17.9 Review the management letter and management's response to the auditor's findings and recommendations.
- 8.17.10 Develop and implement policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.

## **9. Reporting Responsibilities**

- 9.1 The Committee Chair shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 9.2 The Committee shall make whatever recommendation to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3 The Committee shall compile a report of its activities to be included in the Company's annual report, describing the work of the Committee.

## **10. Other Matters**

The Committee shall:

- 10.1 Have access to sufficient resource in order to carry out its duties, including access to the Company Secretary for assistance as required.
- 10.2 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.
- 10.3 Give due consideration to laws, regulations and any published guidelines or recommendations, as appropriate.
- 10.4 Arrange for periodic review of its own performance and, at least annually, review its 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.

## **11. Authority**

11.1 The Committee is authorised:

- 11.1.1 To seek any information it requires from any employee / Head of Service of the company in order to perform its duties.
- 11.1.2 To obtain, at the Company's expense, external legal or other professional advice on any matter within its terms of reference.
- 11.1.3 To request the attendance of any employee at a meeting of the Committee as and when required.