

# **UNITY TRUST BANK PLC (“the Bank”)**

## **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 19 September 2014.

#### **2. Membership**

2.1 The Committee shall be appointed by the Board and shall normally consist of no less than four members, one of whom shall be the Independent Director.

2.2 The membership shall comprise Non-Executive Directors only,. 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 At least two members of the Committee shall normally sit on the Board Risk Committee.

2.5 Appointments shall be for a period of up to three years, extendable by no more than two additional three-year periods.

2.6 The Chair of the Committee shall be appointed by the Board. In the absence of the Committee Chair, the remaining members present shall elect one of themselves to chair the meeting.

2.7 The Secretary, or such person as the Secretary may recommend to the Board of Unity Trust Bank, shall be the Secretary of the Committee. The Secretary will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues, and shall circulate the minutes of the meeting to the Committee.

#### **3. Quorum**

A quorum shall be two members, one of whom should have recent and relevant financial experience.

#### **4. Attendance at meetings**

4.1 No one other than the Committee Chair and its members shall attend meetings of the Committee, unless at the invitation of the Chair. Such invitees may include the Chief Executive, Finance Director, Chief Risk Officer and representatives of Internal Audit and the External Auditor. Other Board members may, by prior agreement with the Chair, 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 Internal Audit and/or the External Auditor without the presence of management to discuss any matters that any of these parties believe should be discussed privately.
- 4.3 The Chair shall communicate on a continuing basis with key individuals responsible for governance within Unity Trust Bank.
- 4.4 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 three times a year or more frequently as circumstances require.
- 5.2 The Secretary 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 Chair 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.
- 7.3 The Committee has the right to publish in the company's annual report, details of any issues that cannot be resolved between the Committee and the Board.

**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 Monitor the integrity of the financial statements of the Bank 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 by the External Auditor.  
In particular, the committee shall review and challenge where necessary:

- any changes to significant accounting policies
  - the methods used to account for significant or unusual transactions where different approaches are possible
  - whether the Bank 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 Bank's financial reports and the context in which statements are made; and
  - all material information presented with the financial statements, such as the strategic report and the corporate governance statements relating to the audit and to risk management.
- 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 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.

### **Internal Control**

- 8.5 Review the Bank's internal controls including
- the annual statements on internal control and their compliance with the UK Corporate Governance Code or subsequent corporate governance guidance (as applicable) prior to consideration by the Board;
  - regular assurance reports from management, Internal Audit, and External Audit, including internal control self assessments, on the operational effectiveness and 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.
- 8.6 Receive reports on activities and note the minutes of the Board Risk Committee;
- 8.7 Consider any necessary disclosure implications of material internal control aspects of any significant problems disclosed in the annual reports and accounts;
- 8.8 Review arrangements by which staff may, in confidence, raise concerns about possible wrongdoing 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**

8.9 Consider regular reports on:

- the Bank's systems and controls for the prevention of Financial Crime including Money Laundering, Fraud and Bribery
- the Bank's compliance with legal and regulatory obligations

## **External Auditor**

8.10 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;

8.11 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;

8.12 Assess annually the qualification, expertise, resources, effectiveness and independence and objectivity of the External Auditor including the provision of non-audit services, 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 and professional 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;

8.17 Receive annual declarations from the External Auditor regarding any family, financial, employment, investment or business relationship with Unity Trust Bank; and their policies on maintaining their independence and objectivity;

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 Agree and monitor the application of the Bank's formal policy for non-audit work and the employment of former employees of the External Auditor;

8.20 At least once a year meet with the External Auditor without management present;

8.21 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 and material weaknesses which arose during the audit
- key accounting and audit judgements
- levels of errors identified during the audit; and

- the effectiveness of the audit process
- 8.22 Review any representation letter(s) requested by the External Auditor before they are signed by management;
- 8.23 Review the management letter and management's response to the auditor's findings and recommendations.

### **Internal Audit**

- 8.24 Consider and approve the Internal Audit outsourcing arrangements, including provider selection;
- 8.25 Review and approve Internal Audit's scope of work and its annual audit plan;
- 8.26 Review and discuss with Internal Audit the issues identified as a result of internal audit work and how management is addressing these issues;
- 8.27 Receive reports on management's response to audit recommendations;
- 8.28 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;
- 8.29 Ensure Internal Audit has direct access to the Board and Committee Chairs, and is accountable to the committee;
- 8.30 Review co-ordination between the Internal and External Auditors and the risk review function;
- 8.31 Meet with Internal Audit at least once a year without the presence of management;
- 8.32 Meet at least once a year without the presence of management or Internal Audit;
- 8.33 Monitor and assess the role and effectiveness of the Internal Audit function in the context of the overall risk management system;
- 8.34 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**

- 8.35 The Committee shall have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required.
- 8.36 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.
- 8.37 Ensure that an induction programme is provided for new members.

- 8.38 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.
- 8.39 Consider other disclosures, documents or topics, as determined by the Board from time to time.

## **9 Reporting responsibilities**

- 9.1 The Chair of the Committee shall report, or ensure that a report is made, on how it has discharged its responsibilities to the Unity Trust Board. This report shall include, at appropriate times, detail of issues that it considered in relation to the financial statements and its assessment of the effectiveness of the external audit process as well as any other issues on which the Board has requested the Committee's opinion, and such recommendations as the Committee may deem appropriate.
- 9.2 The External Auditor will issue written reports to the Board, which will be circulated in advance of the Board Meetings at which the External Auditor will be in attendance (as appropriate).
- 9.3 The minutes of the meeting shall be provided to the Unity Trust Bank Board.
- 9.4 The Committee shall compile a report on its activities to be included in the Bank'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; and all other information requirements set out in the Code.