

Principality Building Society

Audit Committee Terms of Reference

Date of approval	21 March 2025
Role	The Audit Committee is a committee of the Society's Board which assists the Board in fulfilling its oversight responsibilities in respect of matters relating to financial reporting; internal audit and external audit; systems of risk management and internal control; and the prevention of fraud.
Membership	The Committee shall comprise at least three members, all of which shall be independent Non-Executive Directors. At least one member of the Committee shall have recent and relevant financial experience and with a competence in accounting and/or auditing. The Committee as a whole shall have competence relevant to the financial services sector. Members of the Committee are appointed by the Board, upon the recommendation of the Governance & Nominations Committee and in consultation with the Chair of the Audit Committee. The Chair of the Society's Board shall not be a member of the Committee.
Chair	The Chair of the Committee shall be appointed by the Board. In the absence of the Committee Chair at a Committee meeting, the remaining members present shall elect one of themselves to chair the meeting.
Secretary	The Secretary of the meeting will be agreed between the Chair of the Meeting and the Society Secretary.
Attendees	Only members of the Committee have the right to attend Committee meetings. However, other individuals may be invited to attend for all or part of the meeting, as and when appropriate such as but not limited to: <ul style="list-style-type: none"> • Other Non-Executive Directors • the Chief Executive Officer, Chief Financial Officer, Chief Internal Auditor, • representatives of the Society's External Auditor. • Other colleagues, as and when appropriate and necessary to present papers.
Frequency	The Committee shall meet no less than five times per annum. Outside of the formal meeting programme, the Committee Chair, and to a lesser extent the other Committee members, will maintain a dialogue with key individuals involved in the Society's governance, including the Chair of the Board, Chief Executive Officer, Chief Financial Officer, Chief Internal Auditor and the External Audit Lead Partner.
Quorum	Three ¹ members, at least one of which should include a member who has recent, relevant financial experience and competence in accounting and/or auditing. A member participating by way of conference call or other communications equipment shall be counted in the quorum accordingly.
Written Resolutions	Written resolutions may be used in accordance with the Society's Rules with written consent by all Directors.

¹ The quorum will reduce by one if the committee membership reduces.

Meeting papers and minutes	<p>The Secretary of the Committee shall circulate the Agenda and papers for each meeting of the Committee no less than five working days in advance of the relevant meeting.</p> <p>Minutes will record the proceedings, resolutions and decisions including recording the names of those present and in attendance and record any declarations of interest/conflicts of interest disclosed at meetings. The minutes of the meeting shall be approved at the next meeting.</p>		
Mandate	<p>The Committee is authorised to:</p> <ul style="list-style-type: none"> • Perform such other oversight functions as the Board may request. • The Committee will receive reports and recommendations from time to time on any matter which it considers to be of sufficient significance. • Review the findings in all reports from reporting accountants appointed at the behest of the regulatory authorities to examine any aspect of the Society's business. 		
Reports to	<p>This Committee reports to the Society's Board and to the Board of any Subsidiary in respect of which it is discharging the responsibilities of Audit Committee.</p> <p>The Chair of the Committee shall attend the Annual General Meeting to answer member questions on the Committee's activities.</p>		
Sub Committees	<p>None.</p>		
Responsibilities	Purpose	Matter	Frequency
1	PERFORMANCE AND RISK MANAGEMENT		
	External Audit		
1.1	Endorse and recommend for Board approval	Consider and make recommendations to the Board (to be put to Members for approval at the Annual General Meeting) about the appointment, re-appointment and removal of the Society's external auditor.	Annually
1.2	Oversight	Ensure that, at least once every ten years, the external audit services contract is put out to tender to enable the Committee to assess and compare the quality and effectiveness of the services of the incumbent auditor with those of other firms. The Committee will oversee the selection procedure for the appointment of the external auditors, ensuring that all tendering firms have access to all necessary information and individuals during the tender process.	Every Ten years
1.3	Oversight	In circumstances where the external auditor resigns, investigate the issues leading to that resignation and decide whether any action is required	As necessary

1.4	Oversight	Oversee the relationship with the external auditor including the Approval of remuneration for the provision of audit and non-audit services, ensuring that the level of fees is appropriate to enable an effective and high quality audit to be conducted	Annually
1.5	Monitor	<p>Review and monitor (including an annual assessment of) the external auditor's independence and objectivity considering relevant UK legislation, regulation, the FRC's Ethical Standard, other appropriate professional requirements and:</p> <ul style="list-style-type: none"> • The qualifications, experience and resources of the external auditor. • The Society's relationship with the external 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. • Satisfy itself that there are no relationships between the external auditor and the Society (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity. 	Annually
1.6	Oversight	Agree with the Board the policy on the employment of former employees of the external auditors, taking account of relevant UK legislation, regulation and the FRC's Ethical Standard and monitor the application of this policy.	As necessary
1.7	Monitor	Monitor the external auditor's processes for maintaining independence, its compliance with relevant UK legislation, regulation, other professional requirements and the FRC's Ethical Standard, including the guidance on the rotation of the audit partner.	Annually
1.8	Monitor	Monitor the level of fees paid to the external auditor compared to the overall fee income of the firm, office and partner and assess these in the context of relevant UK legislation, regulation, other professional requirements and the FRC's Ethical Standard.	Annually
1.9	Oversight	Annually assess the qualifications, expertise and resources of the external auditor and the effectiveness of the external audit process	Annually
1.10	Oversight	Seek to ensure the co-ordination of the external audit with the activities of the Internal Audit function, where appropriate.	As Necessary
1.11	Monitor	Monitor the engagement of the external auditor to supply non-audit services, ensuring that there is prior approval from the Chair of non-audit services, considering the impact that this may have on independence, considering relevant ethical guidance in this regard and reporting to the Board on any improvement or action required.	Biannually

1.12	Oversight	<p>Meet regularly with the external auditor:</p> <ul style="list-style-type: none"> • Including at least once a year without management being present, to discuss the auditor's remit and any issues arising from the audit. • To discuss the factors that could affect audit quality and review and approve the audit plan, ensuring it is consistent with the scope of the audit engagement. • Review the findings of the audit (including a discussion of any major issues which arose during the audit, the auditor's explanation of how risks to audit quality were addressed, key accounting and audit judgements, the auditor's view of their interactions with management and the levels of errors identified during the audit). 	Annually/As necessary
1.13		Review any letters of representation requested by the external auditor prior to being signed by Management.	Annually
1.14		Review the management letter and management's response to the auditor's findings and recommendations	Annually
Financial Reporting			
1.15	Monitor	The Committee shall monitor the integrity of the financial statements of the Society and any formal announcements relating to the Society's financial performance, and reviewing significant financial reporting judgements contained in them.	Biannually
1.16	Oversight	<p>In particular, the Committee shall review and challenge where necessary:</p> <ul style="list-style-type: none"> • The application of significant accounting policies and any changes to them. • The methods used to account for significant or unusual transactions where different approaches are possible. • Whether the Society has adopted appropriate accounting policies and made appropriate estimates and judgements, considering the external auditor's views on the financial statements. • All material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management. 	As necessary
1.17	Approve	The Committee shall approve any other statements which contain financial information (including Pillar 3 Disclosures, and Corporate Responsibility Disclosures [CRD]).	Annually
1.18	Endorse and recommend for Board approval	The Committee shall recommend the financial statements to the Board for approval.	Biannually

1.19	Approve	Review the Tax Compliance Policy and approve the Society's Tax Strategy	Triennially
Narrative Reporting			
1.20	Endorse and recommend for Board approval	The Committee shall review the content of the half year and annual report and accounts, Long Term Viability Statement and advise the Board (where requested) on whether, taken as a whole it is fair, balanced and understandable and provides the information necessary for Members to assess the Society's position and performance, business model and strategy.	Biannually
Internal Control and Risk Management			
1.21	Oversight	The Committee shall keep under review the Society's internal systems of control and risk management.	As necessary
1.22	Approve	The Committee shall review and approve the statements to be included in the annual report concerning internal control and the viability.	Annually
1.23	Oversight	Review the Society's procedures for detecting fraud.	Annually
Internal Audit			
1.24	Oversight	Review and approve the role and mandate of the internal audit function, monitor and review the effectiveness of the function and its work, annually approve the Internal Audit Charter and support the Chief Internal Auditor in discharging the prescribed responsibilities under the FCA's Senior Manager's Regime.	Annually
1.25	Approve	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 the work being carried out. The Committee shall review and monitor management's responsiveness to the findings and recommendations made by Internal Audit. As part of the approval process of the Internal Audit Plan, the Committee shall receive the Conduct and Compliance Monitoring Plan (as approved by the Board Risk Committee) to satisfy itself that any potential duplication between the second and third line plans is minimised as far as possible.	Annually
1.26	Oversight	Ensure that Internal Audit has an 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 those functions as part of the internal audit plan and ensure that the Internal Audit function is equipped to perform its role in accordance with appropriate professional standards.	Ongoing

1.27	Oversight	Ensure that Chief Internal Auditor has direct access to the Society's Chair and to the Committee's Chair. The Committee shall meet not less than annually with the Chief Internal Auditor without the presence of management.	Annually
1.28	Oversight	Carry out an annual assessment of the effectiveness of the Internal Audit function and from time to time oversee the process leading to an independent third-party review of the effectiveness of the Internal Audit function.	Annually
2.	CULTURE & LEADERSHIP		
2.1	Oversight	The Chair of the Audit Committee will be invited to attend Remuneration Committee meetings where the Chief Internal Auditors remuneration is agreed.	As necessary
3.	CORPORATE GOVERNANCE MATTERS		
3.1	Endorse and recommend for Board approval	Recommend to the Board the appointment and/or removal of the Chief Internal Auditor.	As necessary
3.2	Oversight	Maintain awareness of evolving best practice on corporate governance in relation to Audit Committees and make recommendations to the Board as appropriate.	As necessary
3.3	Oversight	Ensure that Customer outcomes are a central focus of risk and internal audit processes. Throughout its activities, the Committee shall consider the general obligation to ensure customers are getting fair value and good outcomes in everything it does (Consumer Duty – Principle 12).	As necessary
3.4	Approve	Review and approve the statements to be included in the Annual Report concerning the role and responsibilities of the Committee and the action it has taken to discharge those responsibilities.	As necessary
3.5	Recommend	At least once per year, the Committee shall review its own performance and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.	Annually
3.6	Oversight	Determine appropriate training and development for Committee Members both on appointment and on an ongoing basis to ensure that Members of the Committee are appropriately skilled.	As necessary
3.7	Oversight	Receive such reports as considered necessary on the production and integrity of regulatory returns.	Annually
3.8	Oversight	The Committee may investigate any activity within its terms of reference and may obtain such information as it considers necessary from any employee or officer and may obtain legal or other professional advice as it considers necessary.	As necessary

3.9	Reporting	The Chair of the Committee will provide a verbal report on the activities of the Committee to the Board following each meeting of the Committee.	Every Board meeting
3.10	Oversight	The Committee shall publish a report in the Annual Report and Accounts detailing any issues which have not been resolved between the Committee and the Board.	Annually