

RISK AND AUDIT COMMITTEE

TERMS OF REFERENCE

APPROVED BY GROUP BOARD: 22 February 2017

EFFECTIVE FROM: 1 April 2017

**RISK AND AUDIT COMMITTEE
("the Committee")
TERMS OF REFERENCE**

1. DEFINITIONS AND INTERPRETATION

1.1 In these Terms of Reference, unless the context otherwise requires:

"Secretary"	means the appointed Secretary or Deputy Secretary of Gentoo Group Limited.
"Constitution"	means the Rules of Gentoo Group Limited.
"Group"	means Gentoo Group Limited, its subsidiary undertakings, and all entities controlled by it.
"Group Board"	means the Board of Gentoo Group Limited.
"Members"	means the non-executive Board members of the Group who are appointed to the Committee.
"ICSA"	means the Institute of Chartered Secretaries and Administrators.
"ICSA Aud"	means ICSA's guidance note on Terms of reference for the audit committee published in June 2013.
"ICSA Risk"	means ICSA's guidance note on Terms of reference for the risk committee published in June 2013.
"Code"	means the National Housing Federation Code of Governance, the Group's Code of Governance.

2. PURPOSE

- 2.1 The Risk and Audit Committee is a formal and transparent arrangement for considering how the organisation ensures, financial viability, maintains a sound system of internal controls, manages risk and maintains an appropriate relationship with its auditors (Code F). The Committee is an advisory body, and shall act on behalf of the Group Board providing challenge, scrutiny, monitoring and advice on the adequacy of the Group's arrangements to ensure the security of Group assets and that social housing assets are protected.
- 2.2 The Committee acknowledges its oversight role in relation to the effectiveness of the internal control systems and audit policies of West of Scotland but recognises that it has its own Audit Committee and monitors the relevant matters in accordance with its Terms of Reference.

3. MEMBERSHIP

- 3.1 Members of the Committee shall be appointed by the Group Board, in consultation with the Chair of the Committee. The Committee shall be made up of at least 3 Independent non-exec Members and no more than 5 Members (ICSA Risk 1.1, Audit 1.1).
- 3.2 At least one Member of the Committee shall have recent and relevant financial experience (ICSA Audit 1.2). The Chair of the Group Board shall not be a Member of the Committee (Code F8).
- 3.3 Only Members have the right to attend Committee meetings. Other individuals such as the Chair of Group Board, the Group Chief Executive Officer, the Executive Finance Director, the Assistant Director of Business Assurance, the Head of Risk, other executive directors, and representatives from the finance function may be required to attend all or part of any meeting as and when appropriate as agreed by the Committee (ICSA Audit 1.3, Risk 1.3).
- 3.4 The external auditors must be independent and effective. They will be invited to attend meetings of the Committee on a regular basis (Code F2, ICSA Audit 1.3, Risk 1.3).
- 3.5 Appointments to the Committee shall be for a period of up to three

years, which may be extended for one further three year period (ICSA Audit 1.4, Risk 1.4).

- 3.6 The Group Board shall appoint the Committee Chair. In the absence of the Chair, the remaining Members present shall elect one of themselves to chair the meeting (ICSA Audit 1.5, Risk 1.5).

4. SECRETARY

- 4.1 The Secretary or Deputy Secretary shall act as the secretary of the Committee. (ICSA Audit 2, Risk 2)

5. QUORUM

- 5.1 The quorum necessary for the transaction of business shall be 3 Members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

- 5.2 The only business that may be transacted by an inquorate meeting is to arrange a time and date for the next meeting.

6. FREQUENCY OF MEETINGS

- 6.1 The Committee shall meet at least six times a year and will usually meet every other month at appropriate times in the reporting and audit cycle and otherwise as required (ICSA Audit 4.1, 4.2).

7. NOTICE OF MEETINGS

- 7.1 Meetings of the Committee shall be called by the Secretary in accordance with the agreed cycle and otherwise at the request of any of the Members or at the request of external or internal auditors if they consider it necessary. (ICSA Risk 5.1, Audit 5.1)

- 7.2 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, any other person required to attend, and the external auditor no later than 5 working days before the date of the meeting. Supporting papers shall be sent to Members and to other attendees as appropriate, at the same time. (ICSA Risk 5.2, Audit 5.2)

8. MINUTES OF MEETINGS

- 8.1 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, and those who have sent their apologies. The Secretary of the Committee shall ascertain at the beginning of each meeting the existence of any conflicts/declarations of interest and minute them accordingly. (ICSA Risk 6.1, Audit 6.1)
- 8.2 Minutes of Committee meetings, including reasons for the decisions taken shall be agreed by the Chair and circulated promptly to Members of the Committee and presented to Group Board for noting or endorsement, unless a conflict of interest exists (Code F5). (ICSA Risk 6.2, Audit 6.2)

9. ANNUAL GENERAL MEETING

- 9.1 The Chair of the Committee shall attend the Annual General Meeting of Group Board prepared to respond to any questions on the Committee's activities. (ICSA Risk 7, Audit 7)

10. DUTIES

10.1 Risk Management

The Committee shall:

- 10.1.1 Advise the Board and make recommendations to the Group Board on the strategic process for risk, including the Group's overall risk appetite, tolerance and strategy, taking into account the current and prospective external environment (eg economic, Regulatory etc.) (Code F10, ICSA Risk 8.1).
- 10.1.2 Identify, oversee, regularly review and advise the Group Board on

the individual and combined material risks faced by the organisation detailing where exposures are. Make plans and strategies to mitigate and manage them effectively (Code F9, ICSA Risk 8.3).

- 10.1.3 Regularly review and approve the Group's risk assessment processes and methodology that inform the Board's decision making, ensuring both quantitative and qualitative metrics are used. (ICSA Risk 8.3)
- 10.1.4 Set a standard and escalation policy for the accurate and timely monitoring of large exposures and certain risk types of critical importance. (ICSA Risk 8.3)
- 10.1.5 Obtain assurance and advise the Board that management have effective systems, tools and techniques in place to assess and manage risk including the assessment of risk associated with proposed strategic transactions. In particular, for acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focusing in particular on risk aspects and implications for the risk appetite and tolerance of the Association, and taking independent external advice where appropriate and available. (ICSA Risk 8.5)
- 10.1.6 Review the adequacy of management response to issues identified in risk registers, ensuring that residual risk is managed within the Group's risk appetite.
- 10.1.7 Monitor the implementation of agreed actions to reduce risks.
- 10.1.8 Review reports on any material breaches of risk limits and the adequacy of proposed action. (ICSA)
- 10.1.9 Consider and approve the remit of the risk management 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. (ICSA Risk 8.12)
- 10.1.10 To ensure that effective processes are in place to record and reconcile the Group's asset and liability information and provide assurance to the Board accordingly.
- 10.1.11 To ensure that effective arrangements are in place to stress test business plans and review the outcome and provide assurance to the Board.

10.1.12 Review and approve the annual risk management plan.

10.2. Governance

The Committee shall:

10.2.1 Obtain assurance relating to corporate governance requirements for the organisation and the approval of the governance statement for inclusion in the group's annual report (ICSA Risk 9.3, Audit 9.3).

10.3 Internal audit

The Committee shall:

10.3.1 Have overall responsibility for internal audit. There must be effective internal controls and appropriate systems for business assurance, so that the Board can have confidence in the information it receives (Code F1, ICSA Audit 8.5).

10.3.2 Monitor and review annually the effectiveness of the Group's internal audit function in the context of the Group's overall internal control and risk management system (Code F3), ICSA Audit 8.5.8).

10.3.3 Recommend to Group Board the appointment and removal of the head of the internal audit function (ICSA Audit 8.5.1).

10.3.4 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. (ICSA Audit 8.5.2)

10.3.5 The Committee shall bring independent scrutiny and challenge to provide the Board with assurance, and exercise oversight of the internal and external audit functions (Code F5)

10.3.6 Ensure the function has adequate standing and is free from management or other restrictions

10.3.7 Review and approve the annual and strategic internal audit plan (ICSA Audit 8.5.4).

- 10.3.8 Receive a report on the results of internal audit work on a periodic basis (ICSA Audit 8.5.5).
- 10.3.9 Review and monitor management's responsiveness to the findings and recommendations of the internal auditor (ICSA Audit 8.5.6).
- 10.3.10 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 Chair of the Group Board and to the Committee (ICSA Audit 8.5.3).

10.4. External Audit

The Committee shall:

- 10.4.1 Have overall responsibility for external audit and shall consider relevant reports and ensure that all appropriate action is taken (Financial Regulations).
- 10.4.2 Consider and make recommendations to the Group Board for approval at the Group's annual general meeting, in relation to the appointment, re-appointment and removal of the Group's external auditors. 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 (Code F4, ICSA Audit 8.6.1, 8.6.3).
- 10.4.3 Oversee the relationship with the external auditors including (but not limited to):
 - 10.4.4 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 (ICSA Audit 8.6.4.1).
 - 10.4.5 Approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit (ICSA Audit 8.6.4.2).
 - 10.4.6 Assessing annually their independence and objectivity taking into account relevant (UK) professional and regulatory

requirements and the relationship with the auditor as a whole, including the provision of any non-audit services (ICSA Audit 8.6.4.3).

10.4.7 Satisfying itself that there are no relationships (such as family, employment, investment, financial, or business) between the auditor and the Group (other than in the ordinary course of business) (ICSA Audit 8.6.4.4).

10.4.8 Recommending to Group Board a policy on the employment of former employees of the Group's auditor, then monitoring the implementation of this policy (ICSA Audit 8.6.4.5).

10.4.9 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 (ICSA Audit 8.6.4.7).

10.4.10 Seek to ensure co-ordination with the external auditors in relation to the activities of the internal audit function (ICSA Audit 8.6.4.8).

10.4.11 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 meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit (Code F6, ICSA Audit 8.6.5).

10.4.12 Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement (ICSA Audit 8.6.6).

10.4.13 Review the finding of the audit with the external auditor. This shall include, but not be limited to, the following (ICSA Audit 8.6.7):

- A discussion of any major issues which arose during the audit
- Any accounting and audit judgements
- Levels of errors identified during the audit.

10.4.14 The Committee shall also review the effectiveness of the audit:

- Review any representation letter(s) requested by the

external auditor (ICSA Audit 8.6.8)

- Review the management letter and management's response to the auditor's findings and recommendations (ICSA Audit 8.6.9).
- Consider the purchase of non-audit services from the external auditor and develop and make recommendations to Group Board on the implementation of a policy, taking into account any relevant ethical guidance on the matter. In addition, to review the policy once implemented (ICSA Audit 8.6.10).

10.5. Financial reporting

10.5.1 The Committee shall monitor the integrity of the financial statements of the Group reviewing significant financial reporting issues and judgments which they contain (ICSA).

10.5.2 The Committee shall review and challenge where necessary:

- Any significant changes in accounting policies or practices.
- The consistency of, and any changes to, accounting policies both on a year-on-year basis and across the Group
- The methods used to account for significant or unusual transactions where different approaches are possible
- Whether the Group has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor
- All material information presented with the financial statements, such as the internal controls assurance statement
- 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 necessary information to assess the Association's performance, business model and strategy.

10.6 Whistleblowing and fraud

The Committee shall:

10.6.1 Review annually the Group's arrangements for its employees

to raise concerns, in confidence, about possible wrongdoings in financial reporting or other matters (ICSA Audit 8.4.1).

10.6.2 Ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action. (ICSA Audit 8.4.1)

10.6.3 Review annually the Group's procedures for detecting fraud and the prevention of bribery and receive reports of non-compliance with anti-bribery procedures and controls (ICSA Audit 8.4.3).

10.6.4 Review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of Anti-Money Laundering systems and controls (ICSA Audit 8.4.4).

11. REPORTING RESPONSIBILITIES

11.1 The Committee Chair or their nominated representative on the Group Board shall report formally to the Group Board on its proceedings after each meeting on all matters within its duties and responsibilities (Code F7, ICSA Audit 9.1, Risk 9.1).

11.2 The Committee shall make whatever recommendations to the Group Board it deems appropriate on any area within its remit where action or improvement is needed (ICSA Audit 9.2, Risk 9.2).

11.3 The Committee shall compile a report on its activities to be included in the Group's annual report including (ICSA Risk 9.3, Audit 9.3):

- Non-audit services provided by the external auditor and the safeguarding of independence and objectivity.
- Any significant issues arising which requires disclosure
- Satisfaction with the framework to maintain the Group's assets and liabilities register.
- Compliance with laws and regulation.
- Process and outcome of stress testing.

12. OTHER MATTERS

12.1 The Committee shall:

- Have access to sufficient resources in order to carry out its duties, including access to the secretariat and executive directors for assistance (ICSA Audit 10.1, Risk 10.1).
- 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 (ICSA Audit 10.2, Risk 10.2).
- Give due consideration to statutes and regulations, the provisions of the Group's adopted Code of Governance and HCA requirements (ICSA Audit 10.3, Risk 10.3).
- Be responsible for co-ordination of the internal and external auditors (ICSA Audit 10.4).
- Oversee any investigation of activities which are within its terms of reference (ICSA Audit 10.5, Risk 10.4).
- At least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to report to Group Board (ICSA Audit 10.7, Risk 10.5):
 - recommended changes it considers necessary
 - how the Committee has discharged its responsibilities during the year
 - any issues/concerns over the financial statements, appointment and performance of the External Auditor