
THFC Group Audit and Risk Committee Terms of Reference

1 Constitution

For the purposes of this document, references to The Housing Finance Corporation Limited ("THFC") includes the equivalent functions for all its subsidiary companies (except Affordable Housing Finance Plc), together known as the ("Group"). The Committee is empowered to act for the Group.

2 Membership

Committee members shall be appointed by the Board of THFC and shall comprise a minimum of three independent non-executive directors of THFC. The Board shall appoint one of these directors as the Audit and Risk Committee Chair.

At least one member of the Committee should have recent and relevant financial experience.

Appointments to the Audit and Risk Committee are for a term of three years, extendable by no more than two additional three-year periods, so long as members continue to be independent.

The Chair of THFC is not eligible to be a member of the Committee but shall be invited to attend each meeting and receive copies all Committee papers.

Mr Guy Thomas has been appointed Chair of Audit and Risk Committee.

3 Meetings

The Committee shall meet three times a year (as a minimum), and otherwise as required.

The external auditor and internal auditor shall attend at least one of its scheduled meetings.

At least once a year the Committee members are to meet with the external auditor and internal auditor in private (i.e. with no executives present) and on any other occasion if either the external auditor, internal auditor or any committee member requests it.

Meetings may be held virtually with the approval of the Chair.

4 Quorum

As a minimum, two members of the Committee present at a meeting shall constitute a quorum.

A member may attend (and be deemed present at) a meeting by telephone or other electronic device.

If the Committee Chair is unable to attend, one of the other non-executive directors shall be appointed Chair of the meeting.

5 Attendance at meetings

Attendees at Committee meetings shall normally be the Chief Executive, the Finance Director, the Group Treasurer and Credit and Risk Director. The executive directors may be asked to leave the meeting if matters are to be discussed concerning the performance of the executive team.

All non-executive directors may attend the Audit and Risk Committee meetings.

6 Responsibilities

The Committee is primarily responsible for overseeing the following:

- The audit process;
- The quarterly financial reporting process;
- Internal controls;
- The Risk Management Framework;

- Compliance with laws and regulations.

External auditor

The Committee is required to:

- a. Make recommendations to the Board in relation to the appointment, remuneration and terms of engagement of the external auditor. The Board will then seek authorisation from the members at the Annual General Meeting to appoint the Auditors and agree their remuneration.
- b. Manage the process of external auditor engagement partner rotation.
- c. Review and monitor the external auditor's independence and objectivity, taking into consideration relevant UK professional and regulatory requirements.
- d. Monitor the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.
- e. Discuss and agree the nature and scope of the audit with the external auditor prior to commencement, including the audit resources to be provided by the external audit team.

Internal auditor

- f. The Committee is required to appoint and monitor the engagement of the internal auditor.

Annual report and accounts

- g. The Committee is required to review the annual report and financial statements before submission to the Board.

In particular, it shall review:

- Material accounting policies and any proposed changes;
- Major judgemental areas in the statutory accounts, e.g. impairment;
- Significant adjustments and any unadjusted errors arising from the audit;
- The 'going concern' assumption and evidence supporting it;
- Compliance with legal requirements, accounting standards and best reporting practice;
- Any problems / reservations the external auditor may have;
- The effectiveness of the Group's internal control systems and prepare a report to shareholders for endorsement by the Board;
- The external auditor's management letter and agree the response proposed by THFC management;
- The audit representation letters before signature by management;
- Any breach or breakdown of controls;
- Internal auditor's work plans, reports and action taken by management.

Risk management and internal controls:

- h. The Committee is responsible for all aspects of risk as described in the Risk Management Framework. Its principal risk responsibility is in relation to non-credit risks as credit risk is allocated more specifically to Credit Committee.

The Committee is required to:

- Review the Risk Management Framework on an annual basis and recommend its approval to the Board (see "8. Recommendations to the Board" below);
- Approve periodic updates to the risk register;
- Notify the Board of any additions or changes to the existing identified risks;
- Review management's periodic reports monitoring the effectiveness of systems of internal control in place to mitigate operational risk;

- Assist the Board in concluding on its assessment of the overall effectiveness of internal controls as is necessary to enable the preparation of financial statements that are free from material misstatement.

Compliance

i. Fraud and whistleblowing

The Committee is required to:

- Review the adequacy and security of the Group'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;

- Review the Group's procedures for detecting fraud;
- Review the Group's systems and controls for the prevention of bribery and receive reports on non-compliance;
- Develop and maintain effective controls to prevent fraud;
- Review the adequacy and security of the Group's whistleblowing arrangements;
- Ensure that all instances of alleged fraud, identified through whistleblowing or other means, receives vigorous and prompt investigation;
- Review systems and procedures to prevent instances of fraud;
- Review the findings of internal investigations of any suspected or alleged fraud; irregularities or failures of internal controls; and / or infringements of laws, rules and regulations; and
- Review THFC's systems and controls for the prevention and detection of fraud, bribery and money laundering.

j. Data Protection

The Committee is required to:

- Seek assurance that THFC has adequate controls in place to facilitate compliance with the Data Protection Act (2018) and the General Data Protection Regulation (GDPR);
- Receive and review any reports of data breaches, (both reported and non-reportable to the ICO) including remediation activities undertaken;
- Receive and review any complaints received with regards to THFC and use the personal data; and
- Review and approve any policies and subsequent changes, in respect of data protection.

k. Anti-money laundering

The Audit and Risk Committee is responsible for reviewing and monitoring compliance with anti-money laundering regulations – these being the Proceeds of Crime Act 2002, the Terrorism Act 2000 (as amended) and the Money Laundering, Terrorist Financing and Transfer of Funds (Information about the Payer) Regulations 2017 (MLR 2017).

The Money Laundering Reporting Officer ("*the MLRO*") is accountable to the Board for oversight and implementation of the anti-money laundering policy. The MLRO reports annually to the Audit and Risk Committee.

Piers Williamson, Group Chief Executive, is the current MLRO.

5 Authorities

The Committee has explicit authority to investigate any matters within its terms of reference and is granted the power to access any resources which it needs to do so and full access to information.

The Committee is authorised to obtain outside professional advice and if necessary, to invite outsiders with relevant experience to attend meetings.

6 Recommendations to the Board

The Committee shall make recommendations to the Board regarding the following matters:

- a. Appointment of the external auditor;
- b. Approval of the Audit and Risk Committee terms of reference;
- c. Approval of the annual report and accounts;
- d. Approval of the Risk Management Framework;
- e. Conclusion regarding the overall effectiveness of the system of internal controls;
- f. Approval of the external auditors' letters of representation;
- g. Approval of the interim statement;
- h. Approval of any significant changes in accounting policies or practices.

7 Reporting responsibilities

The Committee shall:

- a. Report to the Board after each meeting on the nature and content of its discussion, as well as any recommendations and action to be taken.

Committee minutes shall be presented to the Board and the Chair of the Committee shall present any issues arising of which the Board should be aware.

- b. Produce a report to be included in the Group's annual report describing the work of the Committee in line with the UK Corporate Governance Code, insofar as it is appropriate and practicable for the size and nature of the Group.

8 Delegations

Management

It is management's responsibility to identify and evaluate the risks faced by THFC for consideration by the Board, at least annually. Management is to rank each risk in terms of its impact on the business if the risk materialises and of the probability of the risk materialising.

Management is also responsible for the design, operation and monitoring of the system of internal control which implements the Board's policies towards managing those risks. This is reviewed by Audit and Risk Committee and shared with the Board for information.

8 Annual review

The Committee is required to review annually its terms of reference and its own effectiveness and to recommend any necessary changes to the Board.

These terms of reference were last approved by the Board on 24 May 2022.

Ray Walker
Company Secretary
24 May 2022