

Diverse talent pipelines

As part of its role the Committee oversees senior leadership succession plans and the diversity of the talent pool for future vacancies.

We have signed the HM Treasury's Women in Finance Charter and are committed to improving gender balance, particularly at senior levels in our organisation. By way of further information, we had the following percentages of women colleagues at 31 December 2024 (and for comparison 2023):

	31 December 2024 %	31 December 2023 %
Executive Committee	28.6	42.9
The Leadership Team immediately below our Board (as set out in the UK Corporate Governance Code)		
Senior Managers	49.1	49.2
Our colleagues in roles Grade E or above (in accordance with our commitments under the Women in Finance Charter)		
All Colleagues	60.4	61.1

For more details on our colleagues and inclusion and diversity please see the Strategic report.

Board and Committee effectiveness reviews

The Board Governance and Nominations Committee agrees the annual effectiveness review process for the Board and its Committees.

As an external review was completed in 2023 in accordance with the Code which requires an external review every three years, it was agreed that an internal effectiveness review process be completed for the Board and its Committees in 2024 based on a questionnaire approach.

Further details on the appointment of the approach to the review can be found in the Corporate Governance report.

Board Chair

Our Senior Independent Director meets with our Board Chair twice a year on behalf of our Board to review the Chair's performance. The review incorporates feedback from key stakeholders including the Executive and Non-Executive Directors.

The annual review for 2024 was completed by Alison Hutchinson, as Senior Independent Director, in December 2024 prior to her stepping down from the Board. The outcomes were reported to the December 2024 Board meeting without the Board Chair present.

Non-Executive Directors

The Board Chair has twice yearly meetings with each Non-Executive Director to review their performance, discuss any areas for development and review ongoing time commitment.

Executive Directors

Executive Director evaluations are carried out by our Chief Executive, (or the Board Chair in the case of the Chief Executive), against agreed objectives.

The Board Chair meets with the Non-Executive Directors at least annually to consider the performance of management and the Executive Directors.

Board Governance and Nominations Committee effectiveness review

Following the external review completed by Lintstock in 2023, the Committee undertook an internal effectiveness review in 2024 based on a questionnaire approach.

The Committee considered the outcomes of the 2024 effectiveness review at its meeting in January 2025. There were no urgent or significant actions, however, the Committee has identified the following areas for focus during 2025:

- Continued oversight of Executive Succession.
- Oversight of the effectiveness of the new Board and Committee Architecture.
- Development of its new role in respect of Executive Governance oversight.

Annemarie Durbin
Board Governance and Nominations Committee Chair

26 February 2025

AUDIT COMMITTEE REPORT



A word from the Chair of the Audit Committee.

I am pleased to present our 2024 Audit Committee report which sets out the Audit Committee's role and its key activities during the year, including its review of financial reporting matters, oversight of the Group's internal controls, and its internal and external auditors.

I am most grateful to my fellow Committee members for the diligence with which they contribute to the Committee's work, and to management for the time and effort they put in to ensure the Committee remains effective.

During the year we have spent considerable time assessing progress in strengthening the Group's control environment to meet external threats and regulatory requirements, and to protect our members' interests. We have also considered the impact of the changes in senior management of the Group over the last two years, and what we need to be fit for purpose for our future. We continued to oversee developments in our internal audit function, including progress against its strategic priorities and the results of its quality assurance programme. We have remained focused on the impacts of the economic environment, notably interest rates, inflation, and unemployment, and regulatory and legislative developments upon our current and future business. The Board delegated responsibility for the oversight of the Group's annual Environmental, Social and Governance (ESG) Report to the Committee in 2023 and we approved the 2023 report in June 2024, following the introduction of a regular Committee meeting to meet the ESG Report timetable.

In 2025, the Audit Committee will continue its work to protect the interests of all of the Group's stakeholders.

Guy Bainbridge
Chair of the Audit Committee

26 February 2025

Audit Committee membership

The members of the Audit Committee are:



Guy Bainbridge
Committee Chair
Independent Vice Chair



Mark Parsons
Senior Independent
Non-Executive Director
(from 1 January 2025)



Peter Bole
Independent
Non-Executive Director



Angela Darlington
Independent
Non-Executive Director

Governance > **Audit Committee Report**

Only members of the Audit Committee are entitled to attend its meetings, although others may be asked to attend all or part of a meeting. Our Chair of the Board, Chief Executive, Chief Financial Officer, Chief Internal Audit Officer and the external auditor were invited to attend all meetings in 2024, along with other members of our Leadership Team and Senior Managers where the Audit Committee felt it was beneficial.

We had four Audit Committee meetings in 2024. The meetings began with a private session between the invited members of the Leadership Team and the Audit Committee members and generally finished with a private session between the Audit Committee members and our internal and external auditors. These private sessions allow the Audit Committee to discuss confidential matters, which may not be appropriate to discuss in the main Audit Committee itself. We also used the Written Resolution process three times where matters required review and approval outside of the planned meeting schedule.

Details on the number of meetings attended by each of the Audit Committee members during 2024 are shown in the Corporate Governance report.

Our Board appoints members to the Audit Committee and takes into account the requirements of the UK Corporate Governance Code ('the Code'), as far as they apply to building societies, when considering who should be a member. In line with the Code, all members have to be independent Non-Executive Directors, at least one member must have 'recent and relevant financial experience' and the Audit Committee as a whole should have experience in the financial services sector.

The Code was updated in 2024 and you can find out more about the Code, and how it applies to building societies, in the Corporate Governance report.

In 2024, all the members of the Audit Committee were independent Non-Executive Directors, and all have recent and relevant financial experience gained through the qualifications they hold and the roles they have held or currently hold with other organisations. The Committee welcomed the appointment of Peter Bole, who joined the Society and Audit Committee in September 2024. Peter's recent and relevant financial services experience will ensure our continuing strong compliance with the Code requirement, bringing significant financial services experience in the Retail Banking and Insurance sector, with particular experience during periods of growth and transformation.

The Audit Committee benefits from a diverse range of expertise in the areas of auditing, finance, risk and transformation with particular emphasis on the financial services sector. Altogether, this ensures that the Audit Committee has the required competence in the financial services sector.

You can find out more about the skills, qualifications and experience of the Audit Committee members in the directors' biographies in the Our Board and Executive Team section.

The roles and responsibilities of the Audit Committee are explained in its Terms of Reference, which set out the areas on which it provides oversight or guidance to the Board. You can find them on our website.

Key financial reporting matters

Providing our stakeholders with complete, accurate and relevant financial information is critical to ensuring that the Society maintains their trust. The Audit Committee is responsible for ensuring that the key accounting policies, estimates and judgements used in our financial statements are appropriate. To help the Audit Committee achieve this, it receives reports from management and our external auditor, PwC.

Significant financial reporting matters considered by the Audit Committee since the last Annual Report and Accounts

Matters Considered	Key Activities 2024
Expected credit losses	<p>The calculation of impairment for a portfolio of mortgage loans is inherently uncertain. Expected credit losses ('ECL') are calculated using historical default and loss experience but require judgement to be applied in predicting future economic conditions (e.g. interest rates and house prices) and customer behaviour (e.g. default rates). Understanding the Group's exposure to credit risk and ensuring that the assumptions feeding into our ECL models are appropriate, are key priorities for the Audit Committee.</p> <p>The Audit Committee continued to challenge management on the selection of economic assumptions, and the relative weighting of the range of economic scenarios, given they have a material impact on ECL, to demonstrate that these decisions appropriately reflected economic conditions and the outlook for unemployment, bank rate and house prices. The general outlook of the economy in 2024 has been positive and relatively stable when compared to 2023. The Committee have considered the external economic environment and the potential future impacts on members and updated economic assumptions have been applied to the ECL model reflecting this steadier environment.</p> <p>Considerable review and discussions have been had around assumptions for base case, upside and downside scenarios, as well as for a severe economic downturn, and have been agreed. The Committee concurred with management that the scenarios used reflected an appropriate range of assumptions and the updated scenario weightings were appropriate to reflect the changing economic outlook.</p> <p>Post model adjustments ('PMA') are applied when a change in credit risk is identified that is not effectively captured in the core ECL models. PMAs are reviewed throughout the year to determine whether the identified risks are still applicable.</p> <p>The Society will continue to rely on PMAs given the environment of increased uncertainty to offer a solution to ECL calculations, whilst model enhancement options are continually being developed. Since they are inherently judgemental, PMAs require robust process and governance, supported by transparent and high-quality documentation.</p> <p>The continued impact of raised interest rates on affordability when refinancing at the end of significantly lower fixed rate products has been a focus area for the Committee, with the Group's affordability PMA challenged to ensure the approach remained fit for purpose.</p> <p>Fourth generation IFRS 9 models and impacts were presented to the Society's Model Risk Committee in 2023 and approved for use. These have been used as the basis for generating Core model ECLs throughout this reporting period.</p> <p>There is a level of underprediction, specifically in the probability of default (PD) calculation, inherent in the fourth generation models and PMAs have been raised to correct this. One reflects the limited sensitivity to the different economic scenarios over the available history. The narrow range in average PD estimates across the various scenarios used highlighted the model weakness. The other relates to PD underprediction, which was also a challenge within the third generation models built on similar data periods, and the trend has continued to be observed through model monitoring since the fourth generation model was put into use in 2023.</p> <p>As these are material to the ECL balance, the Audit Committee reviewed and challenged the rationale, calculation methodology and governance for each of these PMAs. Being key to the accurate provisioning, the ECL model performance is constantly monitored and the results of this monitoring are communicated to the Committee.</p> <p>The Committee continues to consider both physical and transition risks in relation to the Group's mortgage portfolio and noted the challenges with underlying data and long-term nature of expected impacts of climate risk as part of the Annual Report and Accounts review and approval process.</p> <p>The Committee was satisfied that the impairment provision and the disclosures provided in the financial statements were appropriate.</p>

Matters Considered	Key Activities 2024
Hedge accounting	<p>The Audit Committee continued to review the methodology and key assumptions applied to the hedge accounting models over the period, including consideration of new hedge strategies.</p> <p>Two new hedge strategies have been incepted in 2024 to reduce the fair value, and hence profit, volatility seen in previous years. Historically, the most significant source of fair value gains and losses has been from both pay- and receive-fix interest rate swaps not placed in to hedge accounting relationships; a proportion of these swaps are now designated.</p> <p>Currently not all unmatched interest rate swaps can be designated into a hedge relationship. However, investigations are on-going into how to formally designate the remaining unmatched interest rate swaps to mitigate further the fair value volatility.</p> <p>The Committee is satisfied that the amounts recognised in the financial statements are appropriately stated.</p>
Retirement benefit obligations	<p>The Group operates one employee benefit scheme (the Scheme) with both defined benefit and defined contribution sections. The defined benefit scheme is accounted for by the Group under IAS 19, with the key assumptions presented to, and approved by, the Audit Committee. During the period the Audit Committee reviewed the assumptions proposed by management and the scheme administrators (Willis Towers Watson), including how they benchmark against the rest of the industry.</p>
Effective interest rate ('EIR')	<p>The Audit Committee considered the results of management's detailed reviews of the methods and assumptions used in the calculation of interest income under the Effective Interest Rate (EIR) methodology, as required under IFRS, and concluded that the amounts recognised were fairly stated.</p>
Acquisition fair value adjustment run-off	<p>The Audit Committee reviewed the run-off profile of the fair value adjustments made on the acquisition of the Chelsea, Norwich & Peterborough and Egg portfolios and approved changes where the actual run-off experience is either quicker or slower than that anticipated on initial recognition. The Audit Committee is comfortable that the carrying amounts reflect the remaining expected life of the acquired loans balances.</p>
Tax	<p>Papers setting out the judgements applied in the recognition of deferred tax balances and the level of transfer pricing adjustments applied between Group entities were presented to the Audit Committee over the period. The Audit Committee is satisfied that the recognised amounts of deferred tax are reasonable given the substantive enactment of scheduled changes in UK corporation tax rates and the transfer pricing assumptions are reasonable.</p>
Provisions for liabilities and charges	<p>The Audit Committee reviewed and considered the provisions and disclosures for liabilities and charges, being those relating to restructuring, customer redress and property related costs, and agreed with the overall amount held.</p>

Significant financial reporting matters considered by the Audit Committee since the last Annual Report and Accounts

Matters Considered	Key Activities 2024
Viability and going concern	<p>The Audit Committee reviewed papers prepared by management and recommended to the Board that the financial statements should be prepared on a going concern basis i.e. 12 months from the date of approval of this report. The Audit Committee confirmed that three years was a suitable period of review for the viability statement, and that the viability statement could be provided. Whilst there is no guarantee, there is a reasonable expectation that the Society will be able to continue to be viable, i.e. operate and meet its liabilities as they become due, to 31 December 2027.</p> <p>More information can be found in our Directors' report.</p>
Disclosures	<p>The Audit Committee reviewed papers prepared by management and agreed that the disclosures included within this Annual Report and Accounts met all statutory requirements under the Building Societies Act 1986, the disclosure and transparency rules of the FCA and applicable international financial reporting standards.</p> <p>The Audit Committee confirmed that disclosures in the Half-Yearly Financial report met the requirements of the disclosure and transparency rules of the FCA and international financial reporting standards.</p> <p>The Audit Committee also reviewed the Group's regulatory Pillar 3 quarterly disclosures included in full on the Society's website. The Committee approved the quarter one, two and three Pillar 3 disclosures for publication and recommended the quarter four disclosures to the Board for its approval.</p>

To enable the Board to approve the Letter of Representation to the external auditor at both year end and half year, the Audit Committee reviewed the specific representations and the basis on which members of the Leadership team have evidenced them.

Other significant reporting matters considered by the Audit Committee since the last Annual Report and Accounts

In 2024 the Committee approved, for the first time, the 2023 Environmental, Social and Governance (ESG) Report (the ESG Report). This followed, in late 2023, the Committee considering the objectives, structure and draft key messages of the 2023 ESG Report, as well as the timeline and governance process for its publication. In April 2024 the Committee met to review and discuss the 2023 ESG Report and its deliberations took into consideration the controls and processes implemented to ensure the accuracy and credibility of the data and messages presented within the ESG Report. The Committee considered new controls that had been introduced and the work that was being undertaken to align the compilation of the ESG Report with the Annual Report and Accounts timetable, work on which will continue into 2025.

The Committee approved the 2023 ESG Report in June 2024. The Committee in November 2024 began its review of the 2024 ESG Report, again looking at the objectives, structure, key messages, timeline and governance processes. The 2024 ESG Report will be more closely aligned to the publication of the 2024 Annual Report and Accounts, with a view to being fully aligned for the 2025 report. The Committee also considered the impact of the creation of an Environmental and Social Purpose Committee effective from the 1 January 2025, which is covered in more detail in the *Corporate Governance report*. The Environmental and Social Purpose Committee will oversee the Society's environmental and social purpose agenda and will contribute to the Audit Committee's overall approval of the ESG Report by providing timely and scheduled input into the 'environmental' and 'social' aspects of the ESG Report. Going forward the 'governance' sections will be recommended for approval by the Board Governance and Nominations Committee. The Committee will continue to monitor the progress to develop a single process for both the ESG Report and the Annual Report and Accounts and will seek updates in 2025 to ensure that going forward both processes and documentation will be aligned.

Governance > **Audit Committee Report****Oversight of the external auditor and external audit process**

The Audit Committee oversees the audit process and the relationship with our external auditor. The Audit Committee begins each annual audit cycle by reviewing and approving the proposed audit plan presented by our external auditor, PwC. This process includes a discussion between the Audit Committee and our external auditor around key risk areas to ensure that there is agreement on the focus of the external auditor's work and their assessment of materiality for the financial statements. The Committee's discussion of the external auditor's risk assessment was informed this year by the economic factors affecting ECLs and new hedging strategies and operational risks.

For further information about materiality and how it is calculated, please refer to the Independent Auditors' report.

The Audit Committee has considered PwC's risk assessments, planned work, resources and audit fees throughout the year and monitored the progress of PwC's audit work through discussions with PwC and management. The external auditor provides regular updates to the Audit Committee on their work on the Half-Yearly Financial report and the Annual Report and Accounts before the Audit Committee approves them.

Throughout the year the Audit Committee assesses the effectiveness of the external audit process, an assessment which is based on guidance from the Financial Reporting Council (FRC). The Audit Committee's assessment includes a review undertaken by the financial reporting management team which focused on a targeted list of business areas who have significant interaction, outside of the main finance teams, with the audit process to obtain feedback. A set of questions was constructed as an anchor for discussions and to generate some consistency

when collating feedback, and wider feedback was captured alongside this. In addition, a survey was sent following completion of the audit to members of the Audit Committee. A debrief with the audit field team took place to obtain their feedback and areas for improvements were identified. A meeting to discuss audit feedback was held with the Senior Audit team members to share the conclusions of the review and obtain their views on the effectiveness of the external audit process and how the Society can contribute further to this. Conclusions are shared with the Audit Committee and helps it review the quality of the external audit team and process. The Audit Committee concluded that the external auditor was performing its duties in an effective manner in 2023 and believe it remains so through the 2024 audit.

External auditor independence

The Audit Committee monitors and annually assesses the external auditor's independence and objectivity, taking into account relevant laws, professional and regulatory requirements and the relationship with the external auditor as a whole. To fulfil the responsibilities set out in its Terms of Reference, the Audit Committee considers, as described below, the external auditor's non-audit work, the fees paid in respect of such non-audit work, the employment of former employees of the external auditor, and the external auditor's tenure.

The Group has a policy on the use of the external auditor for non-audit work, and the application of this policy is overseen by the Audit Committee. The policy is designed to ensure the external auditor's continued independence and objectivity.

Fees for individual assignments that exceed a set threshold are reviewed by the Audit Committee. Fees for those assignments under the threshold are approved by the Chief Financial Officer under delegated authority. All non-audit services are approved in advance of the work commencing. Our external auditor's

fee is reviewed regularly. The Audit Committee is satisfied that the Group has operated in line with the policy during 2024.

The total amount of fees paid to our external auditor for both audit and non-audit work is disclosed in Note 6 to the financial statements.

The Group also has a policy on the employment of employees of the Group's external auditor, and the Audit Committee monitors the implementation of this policy annually. In summary, this restricts the Society from offering employment to named individuals from the external audit firm for key management positions within a two-year period from working on the Group statutory audit and ensures any such offers of employment are vetted by the Audit Committee to ensure on-going independence of the external auditor. The Audit Committee also reviewed the independence position of the Committee members and relevant senior members of the Finance Division, and it remains satisfied there are no conflicts or independence issues.

The Audit Committee takes into account the performance of the external auditor when considering their reappointment as well as their length of tenure and the date of rotation of the audit partner. PwC were appointed as external auditor following a competitive tender process in 2018 and their appointment was approved by members at the 2019 AGM. Having completed the maximum term of five years as the audit partner as at the 2023 year end, Heather Varley has been succeeded by Michael Whyte, who will discharge these responsibilities for the 2024 year end. PwC were reappointed as the Society's external auditor at the 2024 AGM and the Audit Committee has recommended to the Board that they be approved for reappointment as external auditor at the 2025 AGM.

Review of internal controls

Our Board recognises that to manage risks effectively we need good internal controls. These help us to achieve our purpose of providing Real Help with Real Life by protecting our customers' and other stakeholders' interests and looking after our Group's assets. They also enable us to become more efficient and effective at what we do, produce reliable information and reports, and comply with laws and regulations.

The risks that we face change over time, so the Audit Committee regularly reviews how our Group's internal controls are working and whether our Group needs to strengthen what it does to manage the nature and extent of those risks, including the risk of fraud (what we call our internal control framework). Our Board develops our policies on risk and control, but all of our Society's colleagues have a responsibility to carry out those policies as part of helping our organisation achieve its objectives. So that they can do that, our Leadership Team provides training and coaching, and then monitors how colleagues are managing risks.

To support the Audit Committee's review of internal controls our Internal Audit function provides reports to every meeting and our external auditor provide their own independent opinions to us. The Audit Committee also receives reports on significant control weaknesses from the Leadership Team. The Audit Committee works closely with the Board Risk Committee (formerly Group Risk Committee until 31 December 2024) to make sure that the risk management framework is operating effectively across our business.

You can find further details of risk management practices in the Risk Management report.

The main types of information the Audit Committee considered during 2024 were:

- **Internal Audit reports:** The Audit Committee reviewed and approved the Internal Audit plan for the year, the proposed revisions to the plan, and the resources needed to support it. In doing this the Audit Committee considered the ongoing appropriateness of Internal Audit's coverage of the Group's risks, processes, systems and controls and the balance of assurance between the Group's transformation programme and other business activities. The Audit Committee also considered reports on the plan's progress, including Internal Audit's findings, their root causes and the Leadership Team's responses. Where Internal Audit reports are rated as 'Unsatisfactory' the accountable members of the Leadership Team are asked to attend the Audit Committee and explain why the identified control weaknesses have arisen and what actions are being taken to address them. In 2024, Internal Audit drew Audit Committee's attention to a range of areas that required significant improvement, including: payroll controls, disaster recovery and operational resilience, IT application and system access controls, regulatory reporting, and governance over the recovery planning activities required by regulation.

- **Updates on risk management culture:** During the year the Committee discussed the Society's risk culture and continued their ongoing monitoring of progress made by management in improving end to end process and controls documentation.
- **External auditor reports:** The Audit Committee reviewed reports from our external auditors, PwC, about recommendations in relation to internal controls for key financial reporting processes and systems. Findings that were raised were prioritised by management according to impact and areas for improvement are being addressed. The Audit Committee considered regular updates on the status of control issues identified by both Internal Audit and PwC, and the volume and age profile of those issues remained within tolerable limits. Because our total assets exceed £50bn, our external auditor provides the PRA with a Written Auditor Report on selected aspects of their audit and this, too, was considered by the Audit Committee during the year in relation to the 2023 audit, together with non-firm specific feedback from the PRA.
- **Report on the adequacy of internal controls in 2024:** The Audit Committee received a report from all three lines of defence concerning the effectiveness of internal controls, including focus on areas not yet at target levels of maturity. Audit Committee's attention was drawn, in particular, to improvements being required to payroll, disaster recovery and operational resilience controls, governance over regulatory reporting and recovery planning, and controls to protect the security of the firm's systems and applications. There is also a need to continue to strengthen capital and conduct risk management controls.
- The Audit Committee considered whether any recommendation should be made to the Remuneration Committee for a possible adjustment to the variable remuneration of the Leadership Team, in respect of internal control weaknesses.

Taken together, the information the Audit Committee reviewed provided assurance that, whilst control improvement work is ongoing, the Group maintained an adequate internal control framework in 2024 and there were no significant breaches of control or regulatory standards. This supports our aim of complying with the principles and provisions of the Code where they apply to building societies. The Leadership Team proactively took action to tackle identified control weaknesses, thereby improving the strength of the internal control environment, so that our Group remains financially and operationally resilient.

Oversight of the Internal Audit function

The purpose of Internal Audit is to provide an independent and objective opinion to the Board on the adequacy and functioning of the Society's system of internal control. This is primarily achieved by performing risk-based reviews, following an established audit methodology. Internal Audit's focus includes assessing controls and governance processes to ensure:

- Significant risk exposures are appropriately identified, reported to the Board and the Society's Senior Leadership Team and effectively controlled.
- Significant financial, management, and operating information is accurate, reliable and delivered in a timely manner.
- The Society's actions comply with policies, standards, procedures, and applicable laws and regulations.

Our Internal Audit function is governed by a charter, which the Audit Committee reviews and approves annually.

The Audit Committee reapproved the charter in November 2024 and you can find a copy of it on our website.

A new Chief Internal Audit Officer was appointed to role in 2024. The Chair of the Audit Committee determined the process for recruiting the official and interviewed all short-listed candidates. Audit Committee as a body formally approved the appointment decision.

The Chief Internal Audit Officer reports directly to the Chair of the Audit Committee and Internal Audit has full and unrestricted access to all of our Group's functions, systems, records and colleagues. The Chair of the Audit Committee meets regularly with the Chief Internal Audit Officer to review the performance of the Internal Audit function and discuss any matters emerging from Internal Audit activities. During 2024, the Chair of the Audit Committee also provided input to the Chief Internal Audit Officer's performance objectives, annual performance appraisal and remuneration.

In addition to receiving reports on the outcomes of Internal Audit activities, as described above, the Audit Committee receives regular reports on the performance of Internal Audit against an agreed set of measures. Internal Audit also reports to the Audit Committee annually on the strategy for the function, the skills and resources it has, and what it needs to effectively discharge its role. The Audit Committee reviews and approves any proposed changes to the strategy and resources. During 2024, this has included consideration of the resources the Internal Audit function may need over the year ahead, and the progress made in developing the function's data analytics capability.

Internal Audit continues to operate its own quality assurance and improvement programme. In 2023 an external quality assessment of the function was performed, which benchmarked Internal Audit against relevant professional standards and codes and industry best practice. The assessment was performed by an independent third-party. The recommendations put forward by the third-party to enhance the function's approach, effectiveness, quality, skills and experience were implemented in 2024.

Overall, the Audit Committee remains satisfied that the Internal Audit function is effective and has the appropriate resources, including use of external third-party support where necessary, to fulfil its responsibilities. The Audit Committee will continue to oversee Internal Audit's development, including the monitoring of action plans resulting from external and internal assessments, to make sure the function remains equipped for the role it plays in helping our Society achieve its purpose.

Audit Committee effectiveness

The effectiveness of the Audit Committee is assessed annually. As referenced in the *Audit Committee report* in the Annual Report and Accounts 2023 the Audit Committee evaluations for 2023 were incorporated into the Board external evaluation process. The Audit Committee has throughout 2024 continued to progress the actions agreed as part of the 2023 process. For 2024 the Board Committee evaluations were incorporated into the Board internal evaluation process. A self-assessment exercise was performed, co-ordinated by Group Secretariat, and a summary of the results was reported to the Committee and discussed in January 2025. The 2024 review concluded that the Audit Committee operated effectively during the year and that there were no significant areas for improvement or significant actions arising for the Committee.

Further details on the evaluation process for 2024 can be found in both the Board Governance and Nominations Committee report and the Corporate Governance report.

The Audit Committee reviews its Terms of Reference every year to ensure it continues to fulfil its responsibilities and meets regulatory requirements and good practice. The Audit Committee confirmed that in 2024 it had met all of its responsibilities. Both the Audit Committee and Board approve the Terms of Reference each year. In 2024 changes to the Terms of Reference were approved to reflect developments following the publication of the Global Internal Audit Standards in January 2024, along with changes to align the Audit Committee's Terms of Reference with those of our other Board Committees and the outcomes of the Board and Committee Architecture Review.

Further details can be found in the Corporate Governance report.

Audit Committee members also take part in training and receive briefings on areas that concern not only their roles on the Committee, but also their roles on the Board. In 2024 the Audit Committee agreed to set aside additional time to be briefed on hedging and hedge accounting, with Board members, and this session is planned for early 2025.

Our Chair of the Board oversees the training and development of the full Board and you can find more information on this in the Composition, Succession and Evaluation section of the Corporate Governance report.

The Society and the Audit Committee will continue to monitor the governance developments following the publication of the revised UK Corporate Governance Code, in January 2024, to ensure that any requirements or relevant areas of good practice identified are implemented by the Society as appropriate for a building society. Further details on the new Code can be found in the *Corporate Governance report*.

The FRC's 'Audit Committees and the External Audit: Minimum Standard' ('the Standard'), published in May 2023, sets the minimum standards for audit committees in relation to their oversight responsibilities for the external audit and includes guidance on assessing the effectiveness of the audit process alongside covering the audit committee's responsibilities for the external audit, the external audit tender, oversight of the external auditor and audit and finally the reporting of activities undertaken to meet the Standard's requirements. The Standard applies to FTSE350 companies and is voluntary, subject to any future legislation being passed to establish the Audit Reporting and Governance Authority, however, the Standard is seen as good governance. The Audit Committee will consider the Standard in more detail in 2025 however an initial review has only identified a few areas that the Audit Committee will focus on in 2025.

Guy Bainbridge
Chair of the Audit Committee
26 February 2025

