



# The Housing Finance Corporation

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## Audit and Risk Committee Terms of Reference

### 1. CONSTITUTION

For the purposes of this document, references to The Housing Finance Corporation Limited 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 The Housing Finance Corporation Limited and shall comprise a minimum of three independent non-executive directors of The Housing Finance Corporation Limited. The Board shall appoint one of these directors as the Audit and Risk Committee Chair.

The Chair of the New Business Committee must be a member of the Audit and Risk Committee.

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

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

### 3. MEETINGS

The Committee shall meet four 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 video conferencing, e.g., Microsoft Teams.

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

## 5. ATTENDANCE AT MEETINGS

In addition to Committee members, attendees at Committee meetings shall normally be the Chief Executive Officer (CEO), the Chief Finance Officer (CFO), the Chief Partnerships Officer (CPO) and the Chief Risk and Operations Officer (CROO). The executive directors may be asked to leave the meeting if matters are to be discussed concerning the performance of the executive team.

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

## 6. DECISIONS BY WRITTEN RESOLUTION

There may be matters arising between scheduled meetings of the Committee for which an immediate decision of the Committee is required. A resolution sent electronically to all Committee members and approved electronically by three-quarters of the Committee members shall be as valid and effective as if it had been passed at a properly called and constituted meeting of the Committee. Such a resolution may comprise one or more documents in the same form, each confirmed electronically by one or more Committee members. The resolution shall become effective on the date that the approval requirement is met.

Any member of the Committee may ask that the proposal be referred to a full meeting of the Committee, in which case a decision by written resolution will not be permitted. Similarly, in the event that any Committee member responds not supporting the proposal, it shall be referred to a full meeting of the Committee for consideration.

## 7. RESPONSIBILITIES

The Committee is primarily responsible for overseeing the following:

- The audit process



- The quarterly financial reporting process
- Internal controls
- The Risk Management Framework
- The risk registers
- Compliance with laws and regulations.

## 7.1. 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.

## 7.2. INTERNAL AUDITOR

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

## 7.3. ANNUAL REPORT AND ACCOUNTS

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

In particular, it shall review:

- i. Material accounting policies and any proposed changes.



# The Housing Finance Corporation

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- ii. Major judgemental areas in the statutory accounts, e.g. impairments.
- iii. Significant adjustments and any unadjusted errors arising from the audit.
- iv. The 'going concern' assumption and evidence supporting it.
- v. Compliance with legal requirements, accounting standards and best reporting practice.
- vi. Any problems / reservations expressed by the external auditor.
- vii. The effectiveness of the Group's internal control systems and prepare a report to shareholders for endorsement by the Board.
- viii. The external auditor's management letter and agree the response proposed by The Housing Finance Corporation Limited management.
- ix. The audit representation letters before signature by management.
- x. Any breach or breakdown of controls.
- xi. The internal auditor's work plans, reports and action taken by management.

## 7.4. RISK MANAGEMENT AND INTERNAL CONTROLS:

- A. Committee is responsible for all aspects of risk as described in the Risk Management Framework. Credit risk is allocated more specifically to a New Business Committee, but the Committee remains responsible for the oversight of credit risk as part of the Risk Management Framework.

The Committee is required to:

- i. Review the Risk Management Framework on an annual basis and recommend its approval to the Board (see "8. Recommendations to the Board" below).
- ii. Approve periodic updates to the risk registers.
- iii. Maintain oversight of credit risk based on minutes and reports received from the Executive Credit and Issuance Committee (ECICI) including review of credit risk exposures, portfolio performance and significant risk events.
- iv. Notify the Board of any additions or changes to the existing identified risks.
- v. Review management's periodic reports monitoring the effectiveness of systems of internal control in place to mitigate operational risk.
- vi. 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.

## 7.5. COMPLIANCE

- A. Fraud and whistleblowing



# The Housing Finance Corporation

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The Committee is required to:

- i. 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.
- ii. Review the Group's procedures and controls for preventing and detecting fraud.
- iii. Review the Group's systems and controls for the prevention of bribery and receive reports on non-compliance.
- iv. Review the adequacy and security of the Group's whistleblowing arrangements.
- v. Ensure that all instances of alleged fraud, identified through whistleblowing or other means, receives vigorous and prompt investigation.
- vi. 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.
- vii. Review The Housing Finance Corporation Limited's systems and controls for the prevention and detection of fraud, bribery and money laundering.

## B. Data Protection

The Committee is required to:

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

## C. Anti-money laundering

The 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 Housing Finance Corporation

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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.

The Group Chief Executive is the appointed MLRO.

## 8. 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 independent advisers/specialists with relevant experience to attend meetings.

## 9. 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.

## 10. 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.



# The Housing Finance Corporation

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- 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.

## 11. DELEGATIONS

### 11.1. MANAGEMENT

It is management's responsibility to identify, evaluate and periodically review the risks faced by The Housing Finance Corporation Limited for consideration by the Committee, and thereafter 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. This is done using the risk registers.

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

## 12. 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 1 November 2024.