

**Bank of Ireland**



# Group Audit Committee

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## Terms of Reference

<b>Document Title:</b>	<b>Group Audit Committee Terms of Reference</b>
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# **Bank of Ireland Group plc (the “Company”)**

## **Group Audit Committee**

### **Terms of Reference**

#### **1. Objectives**

The Group Audit Committee is the Committee of the Board of Directors of Bank of Ireland Group plc (the “Board”) responsible for:-

- 1.1 the appropriateness and completeness of the system of internal control;
- 1.2 in close liaison with the Board Risk Committee, reviewing the manner and framework in which management ensures and monitors the adequacy of the nature, extent and effectiveness of internal control systems, including accounting control systems, and thereby maintaining an effective system of internal control;
- 1.3 monitoring the integrity of the financial statements and the financial reporting process and assisting the Board in meeting its obligations under relevant Stock Exchange Listing Rules and under other applicable laws and regulations;
- 1.4 overseeing all matters relating to the relationship between Bank of Ireland Group plc and its subsidiaries (the “Group”) and the external auditors of the Group (“External Auditors”);
- 1.5 monitoring and reviewing the effectiveness of the Group’s Internal Audit function and its operations;
- 1.6 discharging the statutory responsibility of the Group under relevant statutes or regulations; and
- 1.7 overseeing compliance with current and future Government requirements associated with their support for certain of the Company’s subsidiaries.

#### **2. Membership**

- 2.1 The Committee shall comprise at least four (4) members, all of whom will be either independent Non-Executive Directors [or Government nominated Directors]. The Committee as a whole shall have an appropriate mix of skills and relevant financial/banking experience. The Committee will include at least one or more members who, the Board believes, have an appropriate qualification and recent and relevant financial experience, including competence in accounting and or auditing. The Chairman of the Board shall not be a member of the Committee. The Chairman of the Board Risk Committee shall be a member of the Committee, but no single individual may hold the position of Chairman of the Committee and Chairman of the Board Risk Committee simultaneously.
- 2.2 Membership of the Committee will be reviewed each year by the Group Nomination and Governance Committee in consultation with the Chairman of the Group Audit Committee and changes will be recommended to the Board at that time as required. While there is no fixed term of membership, the general aim is to refresh the membership from time to time to ensure an appropriate balance between continuity and fresh perspectives.

- 2.3 The Chairman of the Committee will be appointed by the Board on the recommendation of the Group Nomination and Governance Committee in consultation with the existing Chairman of the Group Audit Committee. In the absence of the Committee Chairman, the remaining members present shall elect one of themselves to chair the meeting.
- 2.4 The Group Secretary or his/her nominee, as agreed with the Chairman of the Committee, shall act as secretary to the Committee. He/she will not be a member of the Committee.
- 2.5 The Group Chief Executive, the Group Chief Financial Officer, the Chief Risk Officer, the Chief Governance And Regulatory Officer, the Head of Internal Audit and other relevant or expert person(s) will normally attend meetings by invitation as will the External Auditors, except for when any matter concerning the External Auditors (e.g. performance, independence and value provided) is being considered by the Committee. Such attendees are not members of the Committee and they may be collectively or individually required to withdraw from meetings of the Committee if requested to do so by the Chairman.
- 2.6 The Committee meets at least twice a year privately separately with management, the Head of Internal Audit and the External Auditors.
- 2.7 The Committee shall 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.

### **3. Meetings and Quorum**

- 3.1 The Committee will meet on at least five (5) occasions per annum at appropriate times in the reporting and audit cycle and otherwise as required.
- 3.2 The quorum for meetings shall be three members.
- 3.3 Meetings of the Committee shall be summoned by the Group Secretary at the request of any of its members or at the request of the External Auditors or Head of Internal Audit if they consider it necessary.
- 3.4 The External Auditors may attend the Committee, at the request of the Chairman of the Committee.
- 3.5 Questions arising at any Committee meeting shall be decided by a majority of votes, where there is an equality of votes, the Chairman shall have a second or casting vote. Votes shall be recorded in the minutes. Where decisions are unanimous, they shall be recorded as such in the minutes. Dissensions and negative votes shall be documented in the minutes in terms acceptable to the dissenting person or negative voter.

### **4. Duties**

The Committee should carry out the duties below for the Company and the Group as a whole. Major subsidiaries generally have their own Audit Committees.

In pursuance of its objectives, the Committee will consider, review and evaluate -

#### **4.1 Internal Control and Risk Management**

- 4.1.1 the effectiveness of the Group's internal controls, including internal financial controls and risk management systems;

- 4.1.2 the findings of any relevant regulatory examinations and/or responses, and consider any potential disclosures/reporting implications;
- 4.1.3 relevant regulatory contact in all jurisdictions, such as inspections, disciplinary matters and emerging developments;
- 4.1.4 the effectiveness of disclosure controls and procedures including such reports as the Financial Reporting Controls Disclosure Committee may provide from time to time;
- 4.1.5 whether management is setting the appropriate “control culture” through communication and example and the timely implementation of recommendations;
- 4.1.6 the formal annual review of the effectiveness of the Group’s system of internal controls, covering all material controls, including financial, operational and compliance controls and risk management systems (“Annual Controls Review”).

## **4.2 Regulatory and Compliance**

- 4.2.1 the overall approach management is taking with regard to ongoing and future compliance responsibilities of the Group;
- 4.2.2 arrangements for dealing with concerns received from staff (including confidential, anonymous submissions) and from external sources regarding financial reporting, fraudulent accounting or irregularities in audit work or other matters and for addressing and overseeing their independent investigation and resolution, as appropriate;
- 4.2.3 reports as appropriate from Group Compliance and Regulatory Risk;
- 4.2.4 reports on an annual basis from the Group Money Laundering Reporting Officer in relation to Anti Money Laundering (AML) and Counter Terrorist Financing (CTF);
- 4.2.5 reports from the Group Investment Committee regarding in progress IT related projects of a value > €5m;
- 4.2.6 reports from the Group Investment Committee regarding Post Implementation Reviews for individual capital expenditure programmes of >€20m over the previous 12 month period;
- 4.2.7 progress against the CBI Risk Mitigation Programme (“RMP”) actions as may be agreed with the Board Risk Committee from time to time including, but not limited to, Regulatory Reporting.

## **4.3 Credit Risk**

- 4.3.1 the Group Impairment Policy (including any revisions thereto) on an annual basis, or more frequently if required, for recommendation to the Board for approval;
- 4.3.2 the adequacy and appropriateness of:

- the Group net impairment (loss)/gain on financial instruments (including, if required, any impairment management adjustment);
  - the quantum of impairment loss allowance;
  - stage allocation, including the quantum of ‘credit-impaired’ balances; and
  - the quantum of non-performing exposures
- for inclusion in the Group year-end and interim accounts for recommendation to the Court for approval. The Committee will have regard to the considerations of the Board Risk Committee in relevant asset quality matters;

4.3.3 the Group Risk Policy Committee approved probability-weighted macro-economic scenarios on a semi-annual basis for use in the Group’s impairment models.

#### **4.4 Internal Auditors**

- 4.4.1 and approve the terms of reference for Group Internal Audit and approve the internal audit annual risk based plan, including the degree of co-ordination with the external audit plan;
- 4.4.2 reports on internal audit results and the timeliness of implementation by management of solutions to major and significant issues;
- 4.4.3 the effectiveness of the Group Internal Audit function in the context of the Group’s overall risk management system and will approve the Group Internal Audit annual budget and annual resource plan while ensuring that it is adequately resourced and is free from undue influence by management or other restrictions;
- 4.4.4 and approve the performance appraisal and remuneration (including bonus) of the Head of Internal Audit, subject to the determination of the Group Remuneration Committee. Any changes must be discussed with the Chairman of the Group Audit Committee prior to implementation;
- 4.4.5 the appointment, replacement or dismissal of the Head of Internal Audit.

#### **4.5 External Reporting**

4.5.1 the integrity of the financial statements of the Group, the Annual Report and Accounts, the Preliminary Announcement of Annual Results, the Interim Statement and any formal announcements relating to the Group’s financial performance. The Committee is also responsible for the approval of the Group’s Pillar 3 Disclosure Policy and the Group’s annual Pillar 3 disclosures.

Such reviews and evaluation should include a consideration of significant financial reporting judgements, alternative accounting treatments and assumptions made by management.

The Committee reviews the Annual Report and recommends to the Board that it believes that the Annual Report taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group’s position and performance, business model and strategy. The Committee reviews the arrangements established to enable this assessment to be made and satisfies itself that those arrangements are appropriate;

- 4.5.2 new accounting policies and significant changes in existing policies, prior to implementation, following appropriate input from the External Auditors;
- 4.5.3 whether, in the Committee's opinion, the Company and its subsidiaries have kept adequate accounting records and whether the financial statements have been prepared in all material respects in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities and financial position and the profit or loss of the Group;
- 4.5.4 whether or not to recommend to the Board that it should approve the annual financial statements and the interim financial statements;
- 4.5.5 the designation of items as "non-core", i.e. those items that obscure the underlying performance trends in the business;
- 4.5.6 ad hoc reports on matters such as material compliance issues raised by regulators which relate directly to disclosure requirements in the Annual Report; relevant issues raised by and correspondence from the accounting and auditing regulators (including the Irish Accounting and Auditing Supervisory Authority ('IAASA'), and the Financial Reporting Council ('FRC'));

#### **4.6 Capital and Liquidity Management activities**

- 4.6.1 any relevant working capital statements including related assurance and verification processes;
- 4.6.2 the relevant capital raising documentation prospectus, shareholder circulars etc and consideration of the related assurance and verification processes;
- 4.6.3 the basis, assumptions and calculations underlying relevant pro-forma statements (including independent review opinions from the External Auditors) included in relevant shareholder documentation;
- 4.6.4 relevant disclosures included in shareholder documentation relating to any "significant changes" to the financial condition and prospects of the Group which may have occurred since the last set of audited or interim financial statements;

#### **4.7 External Auditors**

The Committee will:

- 4.7.1 oversee the selection process and make recommendations to the Board for the approval of shareholders, on the appointment, re-appointment and removal of the External Auditors. The Committee shall oversee the selection process for new auditors and if an External Auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- 4.7.2 approve, following input deemed appropriate from management, the scope, remuneration and terms of engagement of the External Auditors, in respect of the provision of audit services to the Company and its subsidiaries, subject to appropriate shareholder approval. The Committee will consider if the level of fees is appropriate to enable an adequate audit to be conducted;

- 4.7.3 review with the External Auditors their plan for their audit of the Group's financial statements;
- 4.7.4 review the results of the external audit, including (but not limited to) matters relating to:-
- (a) the critical accounting estimates and judgements;
  - (b) key technical accounting and audit judgements;
  - (c) the statement of unadjusted items as well as, if appropriate, adjustments resulting from the audit;
  - (d) the clarity of disclosures; issues encountered by the External Auditors and degree of co-operation received from management;
  - (e) any identified significant deficiencies and material weaknesses in relation to the financial reporting process and/or arising from the Financial Reporting Controls testing process;
  - (f) any significant unresolved accounting and auditing issues; and
  - (g) the letter of representation

and in regard thereto receive from the statutory auditors a report on key matters arising from the statutory audit of the Company and the Group and in particular on material weaknesses in internal control in relation to the financial reporting process;

- 4.7.5 monitor the performance and quality of the services provided by the External Auditors in particular the statutory audit, including consideration of the External Auditors' report on their own internal control and quality procedures. Reviewing their qualifications, independence and objectivity at least annually, taking into consideration all relationships between the Group including affiliates of the Group and the External Auditors;
- 4.7.6 develop and implement a policy on the engagement of the External Auditors to supply non-audit services and the engagement of other audit firms to supply audit, review or attest services taking into account relevant legal requirements and guidance regarding the provision of non-audit services by the External Auditors and the provision of audit related services by other audit firms considering their expertise and value for money;
- 4.7.7 pre-approve all permitted non-audit services to be provided to the Company and its subsidiaries by the External Auditors. Monitor the level of such expenditure to ensure that the External Auditors' objectivity and independence from the Group is not impaired;
- 4.7.8 review any relevant issues arising out of the potential employment by the Group of any employee or former employee of the External Auditors to ensure that the External Auditors' objectivity and independence from the Group is not impaired;
- 4.7.9 monitor the External Auditors' compliance with relevant statutory or regulatory requirements including the External Auditors' independence and rotation of relevant audit engagement partners.

#### **4.8 Financial performance**

The Committee may consider, review and evaluate the financial performance of the Group including its progress in achieving its financial targets and objectives.

## **5. Reporting**

- 5.1 The Chairman of the Committee should report formally to the Board the Committee's views in relation to the Interim Report, Preliminary Announcement of Annual Results and the Annual Report.
- 5.2 The Chairman of the Committee will report formally on the key aspects of the proceedings of the Committee to the subsequent full meeting of the Board and the minutes of the Committee should be tabled at the Board as soon as possible for noting and/or discussion as necessary.
- 5.3 The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to shareholder questions on the Committee's activities.
- 5.4 In line with the requirements of the Central Bank of Ireland's Auditor Protocol, the Chairman of the Committee will attend relevant meetings with the Central Bank and with the External Auditors as required.

## **6. Authority**

The Committee's remit extends to all Group activities.

- 6.1 Subject to the responsibilities of the Committee under applicable laws and regulations, the Committee will operate under delegated authority from the Board which is ultimately responsible for all matters relating to the presentation of financial statements and all issues arising from internal and external audits in the Group.
- 6.2 The Committee acts as a channel of communication between the Board, management, auditors and shareholders and reports to the Board, with its recommendations where it considers action or improvement is needed in any area under its remit.
- 6.3 The Committee may investigate any matter falling within its terms of reference calling on whatever resources (including external professional or legal services) and information it considers necessary to so do. It shall have access to adequate funding to enable it to discharge its duties.
- 6.4 The Committee may invite any Director, Executive or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objectives.
- 6.5 The Committee is authorised to seek any information it requires from any employee of the Group to enable it to discharge its responsibilities.

## **7. Performance Evaluation**

- 7.1 The Committee shall, at least once a year, review its own performance and terms of reference and shall report its conclusions and recommend any changes it considers necessary to the Board.