



AL RAYAN BANK

**Al Rayan Bank Plc  
Board Audit Committee  
Terms of Reference  
December 2023**

## **1. Membership**

- 1.1 The committee shall comprise of at least three members, the majority of which shall be independent non-executive directors.
- 1.2 Appointments to the committee are made by the board on the recommendation of the Remuneration & Nomination committee and shall be for a period of up to three years which may be extended for up to two additional three-year periods.
- 1.3 Only members of the committee have the right to attend committee meetings. However, other individuals such as the Chief Executive Officer, Chief Risk Officer, Chief Finance Officer, Head of Internal Audit, external audit lead partner and advisers may be invited to attend all or part of any meeting, as and when appropriate.
- 1.4 The board shall appoint the committee Chair who shall be an independent non- executive director. In the absence of the committee chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting who would qualify under these terms of reference to be appointed to that position by the board.

## **2. Secretary**

The Company Secretary or their nominee shall act as the secretary of the committee and will ensure that the committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

## **3. Quorum, Voting & Resolutions**

The quorum necessary for the transaction of business shall be two members with each member receiving one vote where matters are tabled for approval. In the case where deadlock occurs, the Chair shall have the casting vote. Resolutions can also be approved electronically by the committee with majority approval.

## **4. Frequency of meetings**

The committee shall meet at least four times a year and otherwise as required.

## **5. Notice of meetings**

- 5.1 Meetings of the committee shall be called by the Company Secretary at the request of the committee Chair or any of its members.
- 5.2 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 of the committee and any other person required to attend no later than five working days before the date of the meeting. Supporting papers shall be sent to committee members and to other attendees, as appropriate, at the same time.

## **6. Minutes of meetings**

- 6.1 The Company Secretary shall minute the proceedings and resolutions of all committee meetings, including the names of those present and in attendance.
- 6.2 Draft minutes of committee meetings shall be circulated to all members of the committee

once reviewed by the Chair. Once approved, minutes should be circulated to all other members of the board.

## **7. Engagement with shareholders**

The committee Chair should attend the annual general meeting to answer any shareholder questions on the committee's activities. In addition, the committee Chair should seek engagement with shareholders on significant matters related to the committee's areas of responsibility.

## **8. Duties**

The committee should carry out the duties detailed below: -

### **8.1 Financial reporting**

8.1.1 The committee shall monitor the integrity of the financial statements of the company, including its annual and half-yearly reports, Pillar 3 disclosures, financial returns, regulatory reports and any other formal statements relating to its financial performance, and review and report to the board on significant financial reporting issues and judgements which those statements contain, having regard to matters communicated to it by the external auditor.

8.1.2 The Committee shall review and recommend to the board the items cited above in 8.1.1.

8.1.3 In particular, the committee shall review and challenge where necessary –

8.1.3.1 the application of significant accounting policies (including Pillar 3 disclosure policies) and any changes to them;

8.1.3.2 the methods used to account for significant or unusual transactions where different approaches are possible;

8.1.3.3 whether the company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements;

8.1.3.4 the clarity and completeness of disclosures in the financial statements and the context in which statements are made; and

8.1.3.5 all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to audit and risk management.

8.1.4 The committee shall review any other statements requiring board approval which contain financial information first, where to carry out a review prior to board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation.

8.1.5 Where the committee is not satisfied with any aspect of the proposed financial reporting by the company, it shall report its views to the board.

## **8.2 Narrative reporting**

Where requested by the board, the committee should review 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 information necessary for shareholders to assess the company's performance, business model and strategy.

## **8.3 Internal Controls and risk management systems**

The committee shall

8.3.1 keep under review the effectiveness company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems;

8.3.2 review and approve the statements to be included in the annual report concerning internal controls, risk management, including the assessment of principal risks and emerging risks, and the viability statement.

## **8.4 Whistleblowing, Investigations, Fraud & Compliance**

The Chair of the committee has oversight of the Whistleblowing Policy and is the Whistleblower Champion.

The committee shall

8.4.1 review the adequacy and security of the company's arrangements for its employees, contractors and external parties 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;

8.4.2 review the company's procedures for detecting fraud; and

8.4.3 review regular reports from the Head of Compliance and keep under review the adequacy and effectiveness of the company's Compliance function.

## **8.5 Internal Audit**

The committee shall

8.5.1 approve the appointment or termination of appointment of (i) the Head of Internal Audit, and (ii) any outsourced Internal Auditor.

8.5.2 review and approve the role and mandate of Internal Audit, monitor and review the effectiveness of its work, and annually approve the Internal Audit Charter ensuring it is appropriate for the current needs of the organisation;

8.5.3 review and approve the annual Internal Audit Plan to ensure it is aligned to

the key risks of the business, and receive regular reports on work carried out;

- 8.5.4 ensure Internal Audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions and that the Internal Audit function evaluates the effectiveness of these functions as part of its Internal Audit Plan, and ensure that the Internal Audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 8.5.5 ensure the internal auditor has direct access to the board Chairman and to the committee Chair, providing independence from the executive and accountability to the committee;
- 8.5.6 carry out an annual assessment of the effectiveness of the Internal Audit function and as part of this assessment
  - 8.5.6.1 meet with the Head of Internal Audit without the presence of management to discuss the effectiveness of the function;
  - 8.5.6.2 review and assess the annual Internal Audit work plan;
  - 8.5.6.3 receive a report on the results of the internal auditor's work;
  - 8.5.6.4 determine whether it is satisfied that the quality, experience and expertise of Internal Audit is appropriate for the business; and
  - 8.5.6.5 review the actions taken by management to implement the recommendations of Internal Audit and to support the effective working of the Internal Audit function.
- 8.5.7 monitor and assess the role and effectiveness of the Internal Audit function in overall context of the company's risk management system and the work of Compliance, Finance and the external auditor.
- 8.5.8 consider whether an independent, third party review of processes is appropriate.

## **8.6 External Audit**

The committee shall

- 8.6.1 consider and make recommendations to the board in relation to the appointment, re-appointment and removal of the company's external auditor.
- 8.6.2 develop and oversee the selection procedure for the appointment of the audit firm in accordance with applicable regulatory requirements, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process.
- 8.6.3 if an external auditor resigns, investigate the issues leading to this and decide whether any action is required.
- 8.6.4 oversee the relationship with the external auditor. In this context the committee shall
  - 8.6.4.1 approve their remuneration, including both fees for audit and non-audit services, and ensure that the level of fees is appropriate to enable an

effective and high-quality audit to be conducted; and

8.6.4.2 approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit

- 8.6.5 assess annually the external auditor's independence and objectivity taking into account relevant law, regulation, ethical standards and other professional requirements, including any threats to the auditor's independence and the safeguards applied to mitigate those threats, including the provision of any non-audit services.
- 8.6.6 satisfy itself that there are no relationships between the auditor and the company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity.
- 8.6.7 monitor the external auditor's processes for maintaining independence, its compliance with relevant law, regulation, other professional requirements including the guidance on the rotation of audit partner and staff
- 8.6.8 assess annually the qualifications, expertise and resources, and independence of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures.
- 8.6.9 seek to ensure coordination of the external audit with the activities of the Internal Audit function.
- 8.6.10 evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the committee
- 8.6.11 develop and recommend to the board the company's formal policy on the provision of non-audit services by the auditor, including prior approval of non-audit services by the committee and specifying the types of non-audit service to be pre approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements.
- 8.6.12 meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and, at least once a year, meet with the external auditor without management being present, to discuss the auditor's remit and any issues arising from the audit.
- 8.6.13 discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team.
- 8.6.14 review the findings of the audit with the external auditor. This shall include but not be limited to, the following
  - 8.6.15 a discussion of any major issues which arose during the audit;
  - 8.6.16 the auditor's explanation of how the risks to audit quality were

addressed;

- 8.6.17 key accounting and audit judgements;
- 8.6.18 the auditor's view of their interactions with senior management; and
- 8.6.19 levels of errors identified during the audit
- 8.6.20 review any representation letter(s) requested by the external auditor before they are signed by management
- 8.6.21 review the management letter and management's response to the auditor's findings and recommendations;
- 8.6.22 review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the committee
- 8.6.23 Where the committee is not satisfied with any aspect of the proposed financial reporting, it shall report its views to the board.

## **9 Reporting responsibilities**

- 9.1 The committee chair shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the board on how it has discharged its responsibilities.
- 9.2 The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3 The committee shall compile a report on its activities to be included in the company's annual report. The report should describe the work of the committee, including
  - 9.3.1 the significant issues that the committee considered in relation to the financial statements and how these issues were addressed;
  - 9.3.2 an explanation of how the committee has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor; and
  - 9.3.3 an explanation of how auditor independence and objectivity are safeguarded if the external auditor provides non-audit services, having regard to matters communicated to it by the auditor and all other information requirements.
- 9.4 In compiling the reports referred to above, the committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the board's assessment of whether the company is a going concern and the inputs to the board's viability statement.

## **10 Tax**

The committee shall

10.1 Review the Tax Strategy and Policy and recommend to Board.

10.2 review tax compliance and tax planning initiatives.

## **11 Other Matters**

The committee shall

- 11.1 Have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for advice and assistance as required.
- 11.2 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.
- 11.3 Give due consideration to all relevant laws and regulations impacting the committee's authority.
- 11.4 Be responsible for oversight of the coordination of the internal and external auditors.
- 11.5 Oversee any investigation of activities which are within its terms of reference.
- 11.6 Work and liaise as necessary with all other board committees ensuring interaction between committees and with the board is reviewed regularly, taking particular account of the impact of risk management and internal controls being delegated to different committees.
- 11.7 Ensure that a periodic evaluation of the committee's performance is carried out.
- 11.8 At least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval.

## **12 Authority**

- 12.1 Obtain, at the company's expense, independent legal, accounting or other professional advice on any matter if it believes it necessary to do so.
- 12.2 Call any employee to be questioned at a meeting of the committee as and when required.

Date of approval  
December 2023

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