

ORNUA CO-OPERATIVE LIMITED**TERMS OF REFERENCE FOR THE AUDIT AND RISK COMMITTEE****1. GENERAL TERMS OF REFERENCE**

- 1.1 The Board of Directors ("the **Board**") of Ornua Co-operative Limited ("Ornua") has established the Audit and Risk Committee (the "**Committee**") to have delegated decision-making authority and to advise the Board in respect of the functions and powers set out in these Terms of Reference.
- 1.2 These Terms of Reference shall be available at all times to any member of the Board and upon request to members of the Advisory Council.

2. ROLE

The role of the Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring:

- 2.1 The integrity of the financial and narrative statements and other financial information provided to shareholders.
- 2.2 Ornua's system of internal controls and risk management.
- 2.3 The internal and external audit process and auditors.
- 2.4 Ornua's attitude to and appetite for risk and its future risk strategy.
- 2.5 How risk is reported both internally and externally.

3. DUTIES AND TERMS OF REFERENCE

The Committee shall have oversight of Ornua as a whole and (unless required otherwise by regulation) carry out the following duties for Ornua as appropriate:

3.1 Financial reporting

The Committee shall:

- (a) monitor and discuss with management the integrity of the financial statements of Ornua, including:
 - (i) the annual report; and
 - (ii) any other formal statements relating to its financial performance;

- (b) review and report to the Board on significant financial reporting issues and judgements which the financial statements, and related formal statements contain having regard to matters communicated to it by the external auditor;
- (c) review and challenge where necessary:
 - (i) the application and appropriateness of significant accounting policies, and any changes to them both on a year-on-year basis and across Ornua;
 - (ii) whether Ornua has made appropriate estimates and judgements, taking into account the external auditor's views;
 - (iii) the clarity and completeness of disclosures in the financial statements and whether the disclosures made are set properly in context, and any changes to those disclosures, including the review of any correspondence between Ornua and the external auditor;
 - (iv) the methods used to account for significant or unusual transactions (including any off balance sheet arrangements) where different approaches are possible;
 - (v) significant adjustments resulting from the external audit; and
 - (vi) the assumptions or qualifications in support of the going concern statement (including any material uncertainties as to Ornua's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements) and the longer term viability statement (including an assessment of the prospects of Ornua looking forward over an appropriate and justified period);
- (d) monitor compliance with financial reporting standards and other financial and governance reporting requirements;
- (e) review all material information presented with the financial statements, such as the directors' report, report of the Chair, report of the CEO and the corporate governance statements, insofar as it relates to audit and risk management;
- (f) review first any other statements that contain financial information and require Board approval, if carrying out a review before Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation; and
- (g) where the Committee is not satisfied with any aspect of the proposed financial reporting by Ornua, report its views to the Board.

3.2 Narrative reporting

Where requested by the Board, the Committee shall 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 its members to assess Ornua's performance, business model and strategy.

3.3 Risk management systems and internal controls

The Committee shall:

(a) Risk management

- (i) On behalf of the Board (which retains overall responsibility for risk management), review and monitor Ornua's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems and, at least annually, carry out a review of their effectiveness, and review and approve the statements to be included in the annual report concerning internal control and risk management.
- (ii) Where requested by the Board, ensure that a robust assessment of the emerging and principal risks facing Ornua has been undertaken (including those risks that would threaten Ornua's business model, future performance, solvency or liquidity and reputation), that procedures are in place to identify emerging risks and provide advice on the management and mitigation of those risks.
- (iii) Oversee and advise the Board on Ornua's current risk exposure and future risk strategy.
- (iv) Ensure that the Board is aware of the type and magnitude of the society's principal risks.
- (v) Continuously review the effectiveness of Ornua's overall risk management framework and processes and ensure corrective action is taken where necessary.
- (vi) Ensure that risk management is properly considered in Board decisions.
- (vii) Review the methodology for reporting risk to the Board, including both quantitative and qualitative measures.
- (viii) Set triggers for reporting and escalation of significant emerging risks which may be critical to Ornua and assess Ornua's ability to manage new risks.
- (ix) Ensure the risk management function is properly resourced.

- (x) Review all material adverse crystallisation of risks, including those involving breaches of Ornua's procedures, carrying out root cause analysis and introducing lessons learned into the risk management system.
- (xi) Consider Ornua's exposure to risk, including risk to Ornua's business model, future performance, solvency or liquidity and reputation.
- (xii) Review Ornua's procedures for managing or mitigating principal risks and identifying new and emerging risks and ensure that they are consistent with Ornua's strategy and risk appetite, and that necessary steps are taken to foster an enterprise-wide culture that supports appropriate risk awareness, behaviours and judgements about risk and recognises and appropriately escalates and addresses risk taking beyond the stated risk appetite.
- (xiii) Review and approve the disclosures and statements in the annual report and accounts relating to internal controls and risk management.
- (xiv) Ensure that relevant disclosures are given in the directors' report as to Ornua's risk management and strategy in relation to financial instruments.
- (xv) Review and approve Ornua's policies which are intended to protect the company from risk and are stated as being the responsibility of the Committee in the Ornua Governance Manual.

(b) Internal controls

- (i) Review Ornua's internal financial controls and internal control systems and at least annually, carry out a review of their effectiveness and approve the statement to be included in the annual report concerning internal control.
- (ii) Monitor and review the adequacy, effectiveness, design and implementation of Ornua's system of internal control and risk management system (including its ability to identify the risks facing Ornua and enable a robust assessment of the principal risks).
- (iii) Review the procedures for and adequacy of stress-testing in the context of Ornua's stated risk appetite and risk tolerance levels.
- (iv) Review the effectiveness and relative costs and benefits of particular controls.
- (v) Review Ornua's ability to reduce the likelihood of principal risks materialising and the impact on the business of risks that do materialise.

(c) On-going viability

Where requested by the Board, provide advice on how, taking into account Ornua's position and principal risks, Ornua's prospects have been assessed, over

what period and why the period is regarded as appropriate. The Committee shall also advise on whether there is a reasonable expectation that Ornua will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary.

(d) Management and internal and external audit reports

- (i) Review the assurance reports from management on the effectiveness of the internal control and risk management systems and from the internal audit, the external auditor and others on the operational effectiveness of matters related to risk and control. The Committee should satisfy itself that these sources of assurance and information are sufficient and objective and are enough to enable the Board to satisfy itself that they are operating effectively.
- (ii) Review the timeliness of, and reports on, the effectiveness of corrective action taken by management in response to any material external or internal audit recommendation.

(e) Disclosures

- (i) Consider any necessary disclosure implications of the process that has been applied by the Board to deal with material internal control aspects of any significant problems disclosed in the annual report and accounts.
- (ii) Consider the major findings of any relevant internal investigations into risk and control weaknesses, fraud, or misconduct and management's response, and also consider whether any such failings or weaknesses are significant and therefore require disclosure, the basis and accuracy of explanations given as to what actions are being taken to address them, and whether the level of disclosure of such actions is appropriate.

3.4 Internal audit

(a) Board Authorisation

- (i) Collaborate with senior management to approve the appointment and removal of the head of the internal audit function. Assess the competencies needed for the head of internal audit to manage the internal audit function.
- (ii) Review and approve the role and mandate of the internal audit function and monitor and review the effectiveness of its work and annually approve the internal audit charter, including any additional topics required ensuring that it is appropriate for Ornua's current needs.
- (iii) Discuss the quality assurance and improvement program with the head of internal audit. Approve the internal audit function's performance

objectives annually. Assess the internal audit function's efficiency and effectiveness.

- (iv) Review and approve the annual internal audit plan to ensure it is aligned to the business's key risks and receive regular reports on work carried out. Be advised of the reasons for any change or delay in the plan and ensure co-ordination between the internal and external auditors.
- (v) Champion the internal audit function by ensuring it has unrestricted scope, necessary resources and appropriate access to information to enable it to perform its function effectively and in accordance with appropriate professional standards for internal auditors. Consider the impact of insufficient resources on the internal audit mandate and plan.

(b) Independence

- (i) Ensure the internal audit function has direct access to the Board chair and to the Committee chair; and is accountable to the Committee.
- (ii) Ensure that the Committee meets with the head of internal audit to discuss the effectiveness of the internal audit function, without management present, at least once per year. Ensure that the function has adequate standing and is free from management or other restrictions.
- (iii) Receive a report on the results of the internal auditor's work on a timely basis and no longer than 14 days after the issue of the final report to the business which includes responses from the business.
- (iv) Recognise and address potential impairments to independence and work with senior management to establish safeguards if roles impair independence.

(c) Board Oversight

- (i) Determine whether it is satisfied that the quality, experience and expertise of internal audit are appropriate for the business.
- (ii) Monitor and review the role and effectiveness of Ornua's internal audit function in the context of Ornua's overall risk management system and the work of compliance, finance and the external auditor, ensuring that the internal audit plan is aligned to the business's key risks.
- (iii) Review and monitor management's responsiveness to the internal auditors' findings and recommendations and management's actions to support the effective working of the internal audit function.
- (iv) Discuss disagreements with senior management or other stakeholders with the head of internal audit and provide support as necessary.

- (v) Ensure that there is open communication between the different functions and that the internal audit function evaluates the effectiveness of risk, compliance and finance functions as part of its internal audit plan.

(d) External Quality Assessment

- (i) Consider whether an independent, third-party review of internal audit effectiveness and processes is required. Determine scope and frequency of assessment. Consider the internal audit function's responsibilities and regulatory requirements when defining the assessment scope.
- (ii) Approve the head of internal audit's plan, covering scope, frequency, assessor competencies, and the rationale for self-assessment with independent validation. Require direct receipt of the assessment results from the assessor. Approve action plan to address deficiencies and opportunities for improvement.

3.5 External audit

The Committee shall, taking into account any applicable law and legislation and other professional requirements:

(a) Appointment, reappointment and resignation

- (i) Consider and make recommendations to the Board, to be put to members for approval at Ornua's AGM, on the appointment, reappointment or removal of Ornua's external auditors.
- (ii) Ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms and, in respect of such tender, conduct such tender process and develop and oversee the selection process in accordance with applicable regulatory requirements, ensuring that all tendering firms have such access as is necessary to information and individuals during the tendering process.
- (iii) If any external auditor resigns, investigate the issues leading to this and decide whether any action is required.
- (iv) Evaluate the risks to the quality and effectiveness of the financial reporting process in light of the external auditor's communications with the Committee and consider the need to include the risk of the withdrawal of the external auditor from the market in that evaluation.

(b) Terms of engagement

Oversee the relationship with the external auditor and negotiate and agree their terms of engagement, including any engagement letter issued at the start of each

audit, the scope of the audit and, in consultation with the executive directors, agree and approve their remuneration (including fees for both the audit and non-audit services) to ensure that the level of fees is appropriate to enable an effective and high quality audit to be undertaken.

(c) Independence and expertise

- (i) Review and assess on an annual basis:
 - (A) the external auditor's independence and objectivity taking into account the relevant law and other professional and regulatory requirements and the relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards to mitigate those threats including the provision of any non-audit services;
 - (B) the qualifications, expertise and resources of the external auditor and, taking into account relevant professional and regulatory requirements, the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
- (ii) seek reassurance from the external auditor and their staff and satisfy itself that they have no relationships with Ornua (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- (iii) at least annually, seek information from the external audit firm about, and monitor, the external audit firm's policies and processes for maintaining independence and its compliance with the relevant law, regulation and other professional requirements, including guidance on the rotation of the audit partner and staff;
- (iv) agree Ornua's policy on employment of former employees of Ornua's external auditor, taking into account legal requirements and monitor the application of this policy.

(d) Fees of external auditor

Monitor the level of fees paid by Ornua to the external auditor compared to the overall fee income of the firm, office and partner and assess these in the context of the legal, professional and regulatory requirements, and guidance.

(e) Non-audit services

- (i) Approval of the external auditor's provision of non-audit services and assessment of whether non-audit services have a direct or material effect on the audited financial statements having regard to:
 - (A) threats to the external auditor's independence and objectivity and any safeguards in place to eliminate or reduce threats;

- (B) the nature of the non-audit services;
- (C) in light of the external audit firm's skills and experience, whether it is the most suitable supplier of the non-audit service;
- (D) the fees for the non-audit services, both for individual services and in aggregate, relative to the audit fee, including special terms and conditions; and
- (ii) Ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity, satisfying itself that there are no relationships between the auditor and Ornua outside the ordinary course of business (including the level of non-audit fees) that could adversely affect the auditor's independence and objectivity, or the audit process.

(f) Audit cycle

- (i) Review and approve the annual audit plan at the start of the audit cycle and ensure it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team.
- (ii) 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, without the executive directors or management being present, to review and discuss the auditor's remit and the findings of the audit including (but not limited to) any major resolved or unresolved issues that arose during the audit, the auditor's explanation of how risks to audit quality were addressed, key accounting and audit judgements, the auditor's view of their interactions with senior management and levels of errors identified during the audit.
- (iii) Consider communications from the external auditor on audit planning and findings on material weaknesses in accounting and internal control systems that come to the auditor's attention, including a review of material items of correspondence between Ornua and the external auditor.
- (iv) Review any representation letter(s) requested by the external auditor before they are signed by management and consider whether, based on its knowledge, the information provided is complete and appropriate.
- (v) Review the external auditor's report to the directors and their management letter, including management's response to the auditor's findings and recommendations.
- (vi) At the end of the audit cycle, assess the effectiveness of the audit process including:

- (A) reviewing whether the auditor has met the agreed audit plan and whether the external auditor identified any risks to audit quality and, if so, how these were addressed;
- (B) understanding reasons for changes to the audit plan;
- (C) considering the external auditor's robustness and perceptiveness in handling key accounting and audit judgements and responding to the Committee's questions;
- (D) obtaining feedback from key people on the conduct of the audit; and
- (E) reviewing and monitoring the content of the external auditor's management letter and reporting to the Board on the effectiveness of the audit process.

(g) Other matters

Be responsible for the co-ordination of the activities between the external auditor and the internal audit function.

3.6 Whistleblowing

The Committee shall review the adequacy and security of Ornua'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.

The Committee may put in place procedures by which staff of the company can, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

Internal Audit will periodically test employee awareness of Ornua's Whistleblowing program and periodically report on whistleblower reports and investigations to the Committee.

3.7 Fraud

The Committee shall review Ornua's procedures for detecting fraud biennially.

3.8 Compliance

The Committee shall:

- (a) review Ornua's systems and controls for ethical behaviour and the prevention of bribery and receive reports on non-compliance; and

- (b) review regular reports from the Chief Risk and Compliance Officer and keep under review the adequacy and effectiveness of Ornua's compliance function.

3.9 Engagement with Members

The Committee chair should seek engagement with its Members on significant matters related to the Committee's areas of responsibility.

4. MEMBERSHIP

- 4.1 The Committee shall comprise of at least three non-executive directors, one of which shall be an independent non-executive director. The Committee may also, at its discretion, appoint one non-director to the Committee in accordance with Rule 45 (a) of the Rules of the Society on such terms as the Committee shall determine, subject to the provisions of these Terms of Reference. The Audit and Risk Committee as a whole shall have competence relevant to the sector in which Ornua operates.
- 4.2 At least one member of the Committee shall have recent and relevant experience working with financial and accounting matters with competence in accounting and/or auditing.
- 4.3 The Board shall appoint members of the Committee, in consultation with the Committee chair. It is recognised that the number of members may fall below three for temporary periods due to departures pending new appointments.
- 4.4 The chair of the Board shall not be a Committee member but may be invited to attend its meetings. The chair of the Board shall not chair the Committee.
- 4.5 Appointments to the Committee shall be for a period of up to four years or the date of earlier retirement from the Board. Appointments may be extended for further periods of up to four years provided the director still meets the criteria for membership of the Committee.
- 4.6 The Committee shall appoint the Chair who shall be a non-executive director. In the absence of the Committee chair and/or an appointed deputy, the remaining members present at a Committee meeting shall elect one of their number present to chair the meeting.
- 4.7 The Committee chair shall regularly review membership of the Committee, and as part of the biennial performance evaluation of the Committee.
- 4.8 The company secretary, or their nominee, shall act as the secretary of the Committee and provide all necessary support to the Committee, including the recording of Committee minutes and ensuring that the Committee receives information and papers in a timely manner to enable full and proper consideration of the relevant issues.

5. ATTENDANCE AT MEETINGS

- 5.1 The Committee shall meet at least three times a year at appropriate times in Ornua's financial reporting and audit cycle and otherwise as required.
- 5.2 Only Committee members have the right to attend and vote at Committee meetings. However, the CEO, CFO, CRCO, head of internal audit, head of risk management and external audit lead partner may be invited to attend and address meetings of the Committee by invitation and other individuals may be invited to attend all or part of any meetings as and when appropriate and necessary.
- 5.3 The secretary of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 5.4 Meetings of the Committee may be conducted when the members are physically present together or in the form of either video or audio conference.

6. NOTICE OF MEETINGS

- 6.1 Meetings of the Committee shall be called by the secretary of the Committee at the request of the Committee chair or any of its members, or at the request of the finance director, external audit lead partner or head of internal audit.
- 6.2 Unless the Committee otherwise agrees, 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, any other person required to attend and all other non-executive directors, 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, but Committee papers may be forwarded at shorter notice with the approval of the Committee chair.
- 6.3 The Committee may send notices, agendas and supporting papers in electronic form where the recipient has agreed to receive documents in such a way.

7. QUORUM

- 7.1 The quorum necessary for the transaction of business at a Committee meeting shall be three members (including, whenever possible, at least one member with recent and relevant financial experience), present in person or by audio or video conference. If there is difficulty in achieving a quorum, independent non-executive directors, who are not members of the Committee, may be co-opted as members for individual meetings.

7.2 A duly convened Committee meeting at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

8. VOTING ARRANGEMENTS

8.1 Subject to paragraph 8.2 and paragraph 8.3, each Committee member shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a Committee meeting whether in person or by audio or video conference.

8.2 If a matter that is considered by the Committee is one where a Committee member, either directly or indirectly has a conflict of interest, that member shall not be permitted to vote at the meeting.

8.3 Except where they have a conflict of interest, the Committee chair shall have a casting vote.

8.4 The Committee chair may ask any attendees of a Committee meeting to leave the meeting to allow discussions of matters relating to them.

9. MINUTES OF MEETINGS

9.1 The secretary of the Committee shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.

9.2 Draft minutes of Committee meetings shall be agreed with the Committee chair and then circulated promptly to all Committee members, unless in the Committee chair's opinion it would be inappropriate to do so.

9.3 Minutes of Committee meetings shall be made available to all directors.

9.4 A resolution in writing and signed by all Committee members shall be as effective as a resolution passed at a Committee meeting. Any written resolution shall be tabled and noted at the next meeting of the Committee.

10. ANNUAL GENERAL MEETING

10.1 The Committee chair shall attend the annual general meeting to answer any shareholder questions on the Committee's activities and areas of responsibility.

11. REPORTING RESPONSIBILITIES

The Committee shall:

- 11.1 Report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities (including any matters on which the Board has requested the Committee's opinion).
- 11.2 Prepare a formal report on its activities and how the Committee has discharged its duties to be included in Ornua's annual report, which shall describe the work of the Committee including:
 - (a) details of the membership of the Committee, number of meetings held over the course of the year;
 - (b) a summary of the role and work of the Committee;
 - (c) how the Committee's performance evaluation has been conducted;
 - (d) confirmation that the Board has carried out a robust assessment of the principal and emerging risks facing Ornua, a description of its principal risks, the procedures in place to identify emerging risks and an explanation as to how they are being managed and mitigated; and
 - (e) any other issues on which the Board has requested the Committee's opinion.
- 11.3 In compiling the report referred to in paragraph 11.2, exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but include at least those matters that have informed the Board's assessment of whether Ornua is a going concern and the longer term viability statement. (The report need not repeat information disclosed elsewhere in the annual report and accounts, but could provide signposts to that information.)
- 11.4 Make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

12. GENERAL MATTERS

The Committee shall:

- 12.1 Consider other duties determined by the Board from time to time.
- 12.2 Have access to sufficient resources to carry out its duties, including access to the company secretary for assistance and advice, as required.
- 12.3 Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members. Any individual training should be discussed and agreed with the company secretary in accordance with the terms of the Directors' Induction and Training Policy.

- 12.4 Work and liaise as necessary with all other Board committees, taking particular account of any delegation of the impact of risk management and internal controls to different committees, and ensure that interaction between committees and between the Committee and the Board is reviewed regularly.
- 12.5 Arrange for periodic reviews of its own performance and, review its terms of reference at least every two years to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

13. AUTHORITY

The Board authorises the Committee to:

- 13.1 Carry out all duties set out in these terms of reference, to have unrestricted access to Ornua's documents and information and to obtain, at Ornua's expense, appropriate independent legal or professional advice on any matter within its terms of reference as it considers necessary.
- 13.2 Seek any information it requires from any employee of Ornua to perform its duties.
- 13.3 Secure the attendance of external advisers at its meetings if it considers this necessary, at Ornua's expense.
- 13.4 Call any employee of Ornua to be questioned at a Committee meeting as and when required, and all such employees are directed to co-operate with any request made by the Committee.
- 13.5 Have the right to publish in Ornua's annual report details of any issues that cannot be resolved between the Committee and the Board.
- 13.6 Commission, at Ornua's expense, any reports or surveys which it deems necessary to help it fulfil its obligations.
- 13.7 Collectively and individually have direct access to Ornua's finance director, the head of internal audit and Ornua's external auditors.