

BOARD AUDIT COMMITTEE TERMS OF REFERENCE

1. Purpose

The Board Audit Committee (the “Committee”) is a sub-committee of the Board of Chorley & District Building Society (the “Society”).

The purpose of the Committee is to assist the Board in discharging its responsibilities in relation to the ongoing review, monitoring and assessment of financial statements and significant financial judgements made within them, internal controls and systems, and the effectiveness of internal and external audit processes for the Society.

2. Objectives

The primary objective of the Committee will be to have oversight of the Society’s:

- Financial reporting.
- Internal controls
- Internal audit arrangements.
- External audit arrangements.
- Compliance, Whistleblowing and Fraud arrangements.
- Reporting procedure.

3 Membership

The Committee shall comprise at least three members, all of whom shall be independent Non-Executive Directors (NEDs) and at least one who must be the Chair of the Board Risk Committee.

At least one member shall have recent and relevant accounting experience and the Committee as a whole, will hold competence that is relevant to the financial services sector and the building society sector.

The Chair of the Board holding SMF9, shall not be a member of the Committee but can attend committee meetings.

Members of the Committee shall be appointed by the Board, on the recommendation of the Nominations and Remunerations Committee, in consultation with the Chair of Committee.

The Board shall appoint the Chair of the Committee. In the absence of the Chair, the remaining members present shall elect one of themselves to Chair the meeting.

The Chair of the Board Risk Committee shall not be elected to the Chair of the meeting in the absence of the Chair of the Audit Committee.

Only members of the Committee have the right to attend meetings. However, the Chief Executive, the Finance Director, Customer Services Director, Chief Risk Officer, Head of Compliance (MLR, DPO), internal and external auditors, will be invited to attend meetings on a regular basis.

Other individuals may be invited to attend all or part of any meeting as and when appropriate.

The membership of the Committee is reviewed annually by the Society's Board.

4. Secretary

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

5. Quorum

The quorum necessary for the transaction of business shall be two members.

6. Frequency of Meetings

The Committee shall meet on a quarterly basis.

It may meet in addition to scheduled meetings, as and when required.

7. Notice of Meetings

Meetings shall be called by the Secretary at the request of the Chair, its members, or internal or external auditors if necessary.

Notice of each meeting confirming the venue, date, and time along with an agenda of items to be discussed, shall be forwarded to each member and any other person required to attend, no later than five working days before the date of the meeting, along with supporting papers.

In the event that an urgent or interim meeting is required, notice of each meeting, along with supporting papers may be given at less than five working days before the date of the proposed meeting.

8. Minutes of Meetings
<p>The Secretary or their nominee shall minute the proceedings and decisions of all Committee meetings, including recording the names of those present and in attendance.</p> <p>Draft minutes of meetings shall be circulated to all members and once approved, shared with the Board, unless it would be inappropriate to do so.</p>
9. Engagement with Stakeholders
<p>The Chair should attend the Annual General Meeting to answer any stakeholder questions on the Committee’s activities.</p> <p>The Chair should also seek engagement with external stakeholders on significant matters related to the Committee’s areas of responsibility.</p>
10. Duties and Responsibilities
10.1 Financial Controls and Reporting:
<p>The Committee shall:</p> <ul style="list-style-type: none"> • Review and challenge where necessary, the integrity, judgements and management of the Society’s financial annual report and accounts and summary financial statement, before submitting them to the Board for approval. • Make appropriate recommendations in relation to: <ul style="list-style-type: none"> ○ The application and consistency of significant accounting policies across the Society and any changes to them. ○ The methods used to account for significant or unusual transactions for decisions requiring a significant element of judgement. ○ The Going Concern paper and whether the Society has considered the views of the External Auditor and adopted appropriate accounting standards recommended and made appropriate estimates and judgements. • Advise the Board on whether the financial reports are fair, balanced, understandable, and provide information for the Society’s stakeholders to assess its performance, business model and strategy (including climate change disclosures). • Examine any aspects of the proposed financial reports it is not satisfied with and report its views to the Board.
10.2 Internal Audit
<p>The Committee shall:</p>

- Approve the appointment or dismissal of the Society’s outsourced Internal Auditors.
- Approve the role and mandate of Internal Audit, monitor, and review the effectiveness of its work, and annually approve the Internal Audit Plan to ensure it is appropriate for the needs of the Society.
- Ensure the Internal Auditors have access to the necessary resources and information across the business to fulfil its mandate through open communication with employees throughout the business, to ensure they are equipped to perform their role in accordance with appropriate professional standards.
- Ensure that Internal Audit has direct access to the Chair of the Board and Chair for independence from the Executive team and accountability to the Committee.
- Carry out an annual assessment of the effectiveness of Internal Audit and as part of the assessment:
 - Meet with Internal Audit without the presence of the Executive and the Senior Management team to discuss the effectiveness of the function and any issues arising from internal audits carried out.
 - Review and assess the annual Internal Audit Plan.
 - Receive a report on the results of the Internal Audit work.
- Assess whether the quality, experience and expertise of Internal Audit is satisfactory.
- Review the actions taken by the Society to implement the recommendations of the Internal Auditors to support the effective working of the Internal Audit function.
- Monitor and assess the role and effectiveness of Internal Audit to ensure it is aligned with the Society’s Risk Management Framework and the role of Compliance, Finance and External Audit.
- Consider whether an independent, third-party review of the Society’s internal systems and controls are appropriate.

10.3 External Audit

The Committee shall:

- Make recommendation to the Board in relation to the approval of the appointment, reappointment, and removal of the External Auditor to Members at the Annual General Meeting.
- Oversee the selection process for a new External Auditor, if necessary. Should the Auditor resign, the Committee shall investigate the issues leading to this and decide whether any action is required.
- Oversee the relationship with the External Auditor. In this context, the Committee shall:
 - Approve the terms of engagement and remuneration to be paid to the External Auditor in respect of the services provided.
 - Assess the qualifications/expertise/resources/effectiveness and independence of the External Auditor.
- Meet regularly with the External Auditor including once at the planning stage before the audit, and once after the audit at the reporting stage.

- Meet the External Auditor at least once a year without the presence of the Executive and the Senior Management team, to discuss their remit and any issues arising from the audit.
- Satisfy itself that there are no relationships between the Auditor and the Society (other than in the ordinary course of business) which may adversely affect the auditor's independence and objectivity.
- Ensure coordination of the external audit with the activities of the internal audit function.
- 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.
- Review and approve the External Audit Plan and ensure it is consistent with the scope of the engagement.
- Review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the External Auditor, and their response to questions from the Committee.
- Review any representation letter(s) requested by the External Auditor before signing off.
- Review the management letter and response to External Auditors findings and recommendations.

10.4 Internal Controls and Compliance

The Committee shall:

- The Committee shall keep under review the Society's internal controls and risk management systems, covering all material controls, including financial, operational and compliance controls.
- Approve and monitor progress of the Compliance Monitoring Plan.
- Assess the adequacy of resource and skillset of those involved in independent Compliance Monitoring as well as instructing the Compliance Function to carry out specific review of any area of operations causing concern to the Committee.
- Ensure the Head of Compliance has direct access to the Chair of the Committee and Board, without the presence of the Executive and the Senior Management team.
- Ensure the Compliance Function is free from management influence and has unrestricted access to all necessary information.
- Receive reports on complaints received by the Society (unless considered by the Board), at least once a year.
- Oversee actions allocated to the First Line of Defence following a compliance or risk assessment conducted by the Second Line of Defence.

10.5 Whistleblowing, Fraud, Bribery and Money Laundering

The Committee shall:

- Review the adequacy and security of the Society's arrangements for its employees and third-party contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

- Ensure there is proportionate and independent investigation of any reports of inappropriate activity or wrongdoing and appropriate follow up action.
- Review the Society's procedures for detecting fraud, including tax evasion.
- Review regular reports (including an annual report) from the Money Laundering Reporting Officer and the adequacy and effectiveness of the Society's anti-money laundering systems and controls.

10.6 Reporting Procedures

The Committee shall:

- Report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- Make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- Produce a report on its activities to be included in the Society's Annual Report & Accounts including how it has discharged its duties.
- Ensure the Terms of Reference are made available to employees and Society Members. In the event audit services have not been provided, the Committee will explain in the annual report and accounts to members how objectivity and independence had been safeguarded.

11. Other Matters

The Committee shall:

- Recommend the appointment of SMF16: Compliance Oversight.
- Recommend the appointment of SMF17: Money Laundering Reporting Officer.
- Have access to sufficient resources in order to carry out its duties, including access to the Chief Risk Officer, Head of Compliance and Company Secretariat for assistance as required.
- 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 existing members.
- Act within the PRA rulebook and FCA handbook.
- Oversee any investigation of activities which are within its Terms of Reference.
- Arrange for periodic reviews of its own performance and, at least annually,
- Review its 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 and Delegated Responsibilities from the Board

The Committee is authorised to:

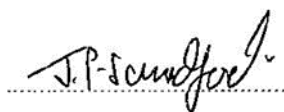
- At least annually, review and approve the Society's policies/processes for
 - Whistleblowing Policy.
 - Anti-money laundering

- Anti-Bribery & Corruption Policy
- Anti-Fraud Policy.
- Request the attendance of any employee at a meeting of the committee and/or seek any information it requires from any employee of the company in order to perform its duties.
- Delegate any matter or matters to another committee or person(s) as it deems appropriate.
- Obtain, at the Society's expense, independent legal or other professional advice on any matter within its terms of reference if it believes it necessary to do so.

13. Relationship with the Board Risk Committee

The Committee achieves appropriate overlap with the Board Risk Committee and shall:

- Report on the work and findings of the Committee at each Risk Committee meeting.
- Provide assurance on the effectiveness of the controls to the Board for their assessment of risk.
- Ensure that key risks have appropriate coverage in the Audit Plan on an ongoing basis.
- Ensure there is clear division of responsibilities in the Terms of Reference for the Committees for areas which could fall under the scope of either the Audit or Board Risk Committees (bribery, fraud, anti-money laundering).
- Review minutes of the Board Risk Committee to identify any control failing and ensure appropriate coverage in the Audit Plan.
- Instruct the Board Risk Committee to carry out specific work, following identification of control deficiencies.
- Make recommendations to the Board Risk Committee on increased risks identified.
- Take advice from the Board Risk Committee on areas of additional work from increased risk areas identified by the Board Risk Committee.

Signed 

Chair: John Sandford

Review History

Date of Issue	Author	Purpose	Date of Approval	Version: CDBS – BAC TOR	Date of Next Review
29 Nov 2023	Board Governance Officer	New Committee	29 Nov 2023	1.0	27 Nov 2024