

Terms of reference

BOARD AUDIT COMMITTEE

Approved by the Board of Directors of Dudley Building Society (the **Society**) on 26 September 2024.

1. PURPOSE

The Board Audit Committee (the **Committee**) assists the Board to ensure oversight in relation to financial reporting and internal controls. Its responsibilities cover financial reporting, narrative reporting, internal controls, whistleblowing, internal audit, and external audit, and regulatory reporting.

2. RESPONSIBILITIES

Financial controls and reporting

2.1 Review, and challenge where necessary, the Society's financial statements, summary financial statement and related publications, prior to both recommending them to the Board for approval and clearance by external auditors. The Committee will pay particular attention to:

- (1) the integrity of the financial statements;
- (2) significant financial judgements or estimates;
- (3) significant or unusual events;
- (4) critical accounting policies and practices, and any changes to them;
- (5) the clarity and completeness of disclosures in the financial information;
- (6) whether the financial statements taken as whole are clear, balanced and understandable;
- (7) going concern and viability assumptions;
- (8) the external auditor's views;
- (9) accounting standards and legal and regulatory requirements; and
- (10) whether the annual report and accounts enables members properly to assess the Society's position, performance, business model and strategy.

External audit

- 2.2 Oversee the Society's relationship with the Society's external auditor including reviewing and agreeing the auditor's terms of engagement and the level of audit and non-audit fees due to the external auditor.
- 2.3 Develop and implement a policy on the engagement of the external auditor to supply non-audit services and ensure that the provision of such services does not impair the external auditor's independence or objectivity.
- 2.4 Consider and make recommendations to the Board on the appointment, re-appointment and removal of the external auditors.
- 2.5 Review and approve the scope and planning of the external audit including the planned levels of materiality, resources, and the seniority and experience of the audit team.
- 2.6 On completion of the annual audit cycle, review and assess the effectiveness and independence of the external auditor.

2.7 Consider issues and findings arising from the external audit and ensure that management proposals to address any issues are satisfactory and actioned.

2.8 Escalate to the Board any matter the Committee considers requires improvement or action and recommend the steps to be taken.

Internal audit

2.9 Review and approve the annual internal audit plan, having regard to the areas covered by the compliance function to ensure appropriate coverage of key controls areas.

2.10 Monitor and review the effectiveness of the Society's internal audit function and progress in delivering the annual internal audit plan.

2.11 Review and consider the internal audit budget as compared to the level of assurance required.

2.12 Receive and consider internal audit reports periodically.

2.13 Review and monitor management's responses to internal findings, particularly those findings which if left unchecked may expose the Society to an undesirable level of risk.

2.14 Ensure the internal audit function has an appropriate level of access and authority so that it may carry out audits and deliver the annual internal audit plan.

2.15 Every three years review the outsourced internal audit provision.

2.16 At appropriate intervals obtain an independent and objective external assessment of the internal audit function.

2.17 Approve the appointment and removal of the outsourced internal audit function.

Internal control

2.18 Monitor the Society's internal control framework – namely all material financial, operational and compliance controls – and at least annually carry out an effectiveness review and ensure that a report on that review is included in the annual report and accounts.

2.19 Report to the Board where there are concerns regarding control weaknesses that have not been addressed satisfactorily.

Whistleblowing, fraud and bribery

2.20 Consider the Society's whistleblowing policy and procedures and ensure they are operating effectively so that colleagues, members and suppliers may, in confidence and, if they wish anonymously, raise concerns.

2.21 Ensure that arrangements are in place for the proportionate and independent investigation of whistleblowing reports and follow-up action.

2.22 Receive reports on the Society's approach to detecting and preventing fraud, bribery and corruption and assess whether they are effective.

Other

- 2.23 Review and approve, or review and recommend to the Board for approval (as the case may be), the policies as set out in the Board Policy Schedule.

3. MEETINGS AND MEMBERSHIP

Committee Chair

- 3.1 A Non-executive Director (other than the Board Chair) will chair the Committee, as appointed by the Board from time to time. If the Committee Chair is absent, or unable to chair the meeting due to a conflict of interests, the other members shall elect one of their number to chair the meeting.

Members

- 3.2 The Committee will comprise three Non-executive Directors, as appointed by the Board from time to time. At least one member must have recent and relevant financial experience. The Committee may operate with a vacancy.

Quorum

- 3.3 Meetings will be quorate if there are present at least two members. A duly convened 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.

Attendees

- 3.4 The Chair of the Board, Chief Executive, Finance Director, Chief Risk Officer, and representatives of the internal and/or external audit functions will be invited to attend Committee meetings.
- 3.5 Other Non-executive Directors may attend meetings at their discretion.
- 3.6 The Committee may invite other individuals to attend all or part of any meeting.

Frequency

- 3.7 The Committee will meet at least four times per year and otherwise as required. The Committee Chair may convene meetings at any time to consider any matter that is within the scope of these terms of reference.
- 3.8 There should be at least one meeting a year where the Committee meets the internal auditor and external auditor without the Executive present.

Secretary

- 3.9 The Society Secretary or their nominee will be secretary to the Committee.

Agenda and papers

- 3.10 The Secretary will send notice of each meeting, an agenda and supporting papers to members, and (as appropriate) attendees at least seven days before the date of the meeting.

Minutes and reporting

- 3.11 The Secretary will take minutes of meetings and send them to the Committee Chair within a reasonable timeframe after the meeting. Following the Committee Chair's approval, the draft

minutes will be made available to other Committee members and submitted to the Committee for approval at the next meeting.

4. OTHER MATTERS

Performance review

- 4.1 Assess the Committee's performance periodically and report the outcome to the Board.
- 4.2 Review these terms of reference periodically and (if thought fit) recommend any changes to the Board for approval.

Authority

- 4.3 The Board has delegated to the Committee authority in respect of the functions and powers set out in these terms of reference. The Committee is authorised to obtain, at the Society's expense, outside legal or other professional advice on any matters within its terms of reference. The Committee may investigate any activity within its terms of reference, seek any information it requires from any employee, and all employees shall co-operate with any reasonable request made by the Committee.