



Audit Committee Terms of reference

February 2021

Darlington Building Society (the 'Society')

Board Audit Committee (the 'Committee')

Terms of Reference

1. Purpose

- 1.1 The Board of Darlington Building Society (the 'Society') has delegated responsibility to the Audit Committee (the 'Committee') matters relating to financial reporting, internal financial controls, oversight of internal and external audit and the whistleblowing policy.
- 1.2 The Committee has no executive powers.

2. Authority

- 2.1 The Committee is a Committee of the Board of Directors (the 'Board') from which it derives its authority and to which it reports following each meeting.
- 2.2 The Committee may delegate appropriate powers and authority as it sees fit, including the establishment of sub-committees to analyse particular issues or themes and to report back to the Committee.
- 2.3 The Committee has authority to investigate any matter relating to the Society within its Terms of Reference and to obtain such information as it may require from any Director, officer or employee of the Society.
- 2.4 The Committee is authorised to seek any information it requires from any employee of the Society in order to perform its duties, obtain (at the Society's expense) independent, accounting or other professional advice on any matter it believes is necessary to do so.
- 2.5 Representatives of the Society's External and Internal Auditors will be invited to attend meetings as appropriate.
- 2.6 The Society's External or Internal Auditors may request a meeting of the Committee as they consider necessary.

3. Constitution

3.1 Chairman of Committee

- 3.1.1 The Chairman of the Committee will be an independent non-executive director appointed by the Board.
- 3.1.2 In the absence of the Chairman of the Committee, the remaining members present shall elect one of themselves to chair the meeting.

3.2 Membership

- 3.2.1 The Committee (including the Chairman) will comprise at least three members, all of whom shall be independent non-executive Directors.
- 3.2.2 The Committee shall include at least one member of the Board Risk Committee.

- 3.2.3 The Committee as a whole shall have competence relevant to the Society sector and at least one member of the Committee should have significant recent and relevant financial experience.
- 3.2.4 The Chairman of the Board shall not be a member of the Committee.
- 3.2.5 The Chairman of the Committee shall be appointed by the Board from among the non-executive Directors on an annual basis at the Board meeting following the Annual General Meeting.
- 3.2.6 Members of the Committee shall be appointed by the Board Nominations & Governance Committee and in consultation with the Chairman of the Committee.
- 3.2.7 Only members have the right to attend Committee meetings; others, by invitation for the whole or part of the meeting.
- 3.2.8 Normally the Society's Executive Directors will be invited to attend meetings.
- 3.2.9 At the request of the Committee and where appropriate other staff and external consultants may be invited to attend.

3.3 **Duration of Appointments**

- 3.3.1 Committee membership shall be reviewed annually and is normally for three years. Any extension of the term shall not be given without consultation with the Board Nominations & Governance Committee and any extension should be for no more than two additional three-year terms.

3.4 **Secretary**

- 3.4.1 The Secretary of the Committee shall be agreed with the Chair of the Committee.
- 3.4.2 The Secretary of the Committee shall record the proceedings and decisions of the Committee meetings, maintain an appropriate register of minutes to account for each meeting taking place.
- 3.4.3 Draft minutes are to be circulated promptly to all members of the Committee and once approved circulated to all other members of the Board as part of the next board meeting pack.

4. Responsibility of the Chairman

- 4.1 The Chairman's role and responsibilities require:
 - 4.1.1 Fostering an open, inclusive and, where appropriate, challenging discussion;
 - 4.1.2 Ensuring the Committee has the information necessary to perform its tasks and devote sufficient attention to the matters within the Committee's remit;
 - 4.1.3 Facilitating the running of the Committee; and
 - 4.1.4 Reporting formally to the Board at its next meeting on the Committee's activities, the minutes being considered as part of that report.
 - 4.1.5 Advise the Chair of the Risk & Compliance Committee regarding issues and risks identified which the Committee believe may be of relevance to and impact on the Risk & Compliance Committee. These would be flagged in the Chairman's report to the Board to ensure communication.
 - 4.1.6 Attendance at the Annual General Meeting to answer questions on the Committees activities.

5. Role of the Committee

- 5.1 The role of the Committee is to review and monitor, among other things:
- 5.1.1 The integrity of the financial statements of the Society, including the Annual Report and Accounts, the Summary Financial Statement and the Pillar 3 Disclosures;
 - 5.1.2 The effectiveness of the Society's internal financial controls;
 - 5.1.3 The effectiveness of the internal and external audit processes;
 - 5.1.4 The Society's relationship with external auditors including their objectivity and independence;
 - 5.1.5 The Society's relationship with internal auditors including their objectivity and independence;
 - 5.1.6 The effectiveness of the Society's whistleblowing procedures.
 - 5.1.7 The Committee may also consider any other matters of relevance to its purpose.

6. Proceedings of Meeting

6.1 Frequency of Meetings

- 6.1.1 The Committee shall meet at least four times a year at appropriate times within the reporting and audit cycle and otherwise as required.
- 6.1.2 Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or at the request of the external or internal auditors if they consider it necessary.
- 6.1.3 A joint meeting of the Audit and Board Risk & Compliance Committee may be held during the year, if appropriate, the Chairmanship of that meeting being agreed by the joint committee when it meets.

6.2 Notice and Quorum

- 6.2.1 The quorum necessary for the transaction of business shall be two members, including the Chairman (where the Chair may be appointed in accordance with paragraph 3.1.2 in the absence of the Audit Committee Chairman) and one of whom must have relevant financial expertise.
- 6.2.2 A duly convened meeting of the Committee 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.
- 6.2.3 Notice of each meeting confirming the venue, time and date together with an agenda and supporting papers shall be communicated to each member of the Committee no less than five days in advance of the date of the meeting.

6.3 Attendees

- 6.3.1 Only the members of the Committee have the right to attend Committee meetings. However, the following will be expected to attend Committee meetings on a regular basis by invitation:
 - Chief Executive
 - Finance Director
 - Chief Risk Officer

- Chief Operating Officer
- Company Secretary if not represented in the above
- Representatives of the External and Internal Auditors

7. Responsibilities

The Committee will undertake the following tasks/functions for the Society.

7.1 Financial reporting

- 7.1.1 The Committee shall monitor and review the integrity of the financial statements of the Society including its Annual Report and Accounts, Summary Financial Statement and Pillar 3 Disclosures;
- 7.1.2 The Committee shall also report to the Board key significant financial reporting issues and judgements they contain and to review any financial information contained in other relevant documents, such as announcements and communications of a commercially sensitive nature;
- 7.1.3 The Committee shall review, and report to the Board on, significant accounting judgements and adjustments;
- 7.1.4 The Committee shall approve a report on its activities for inclusion in the Annual Report and Accounts which includes an explanation of how the committee addressed the effectiveness of the external and internal audit process and other information requirements set out in the Governance Code;
- 7.1.5 In particular, the Committee shall review and challenge where necessary:
- The consistency of, and any changes to, significant accounting policies both on a year-on-year basis and across the Group;
 - Any significant estimates and judgements made by management in connection with the preparation of the Group's Annual Report and Accounts;
 - The methods used to account for significant or unusual transactions where different approaches are possible;
 - The clarity and completeness of the disclosures made in the Annual Report and Accounts, including the Strategic Report, Directors' Report, Corporate Governance Statements, Annual Business Statement and Summary Financial Statement prior to submission to and approval by the Board;
 - Confirm to the Board that the Annual Report and Accounts provide the necessary information for members to assess the Group's performance, business model and strategy;
 - Whether the Society has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - Reports prepared to support the going concern and business viability statements made in the Annual Report and Accounts; and
 - The completeness and accuracy of the Pillar 3 Disclosures.
- 7.1.6 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Society, it shall report its views to the Board.

- 7.1.7 The Committee shall report significant alleged frauds or misappropriation of assets to the Board Risk Committee.
- 7.1.8 The Committee shall keep under review the adequacy and effectiveness of the Society's internal financial controls.

7.2 Internal Audit

The Committee shall:

- 7.2.1 Monitor and review the effectiveness of the Group's Internal Audit function, on an annual basis, in the context of the Group's overall risk management system and the work of compliance, finance and external auditors;
- 7.2.2 Approve the appointment, re-appointment and removal of Internal Audit;
- 7.2.3 Approve the Internal Audit Fee and review the adequacy of the service provided in line with the Service Level Agreement;
- 7.2.4 Consider and approve the remit of the Internal Audit function in so far as it relates to the Society. In particular, ensure it provides adequate resources, has appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function is independent and objective.;
- 7.2.5 Review and approve the Annual Internal Audit Plan, including any changes thereto;
- 7.2.6 Receive a report on the results from Internal Audit's work on a regular basis together with recommendations for improvement and review;
- 7.2.7 Review and monitor management's responsiveness to the findings and recommendations of the Internal Auditor; and
- 7.2.8 Meet the Internal Auditor at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, Internal Audit shall be given the right of direct access to the Chairman of the Board and of the Committee.

7.3 External Audit

The Committee shall oversee the Society's relationship with the external auditors and assess the effectiveness of the external audit process on an annual basis. In particular:

7.3.1 General

- i. Maintain regular, timely, open and honest communication with the external auditors, ensuring the external auditors report to the Committee on all relevant matters to enable the Committee to carry out its oversight responsibilities.
- ii. At least twice a year, meet with the external auditors without executive Directors or executive management present.
- iii. The Chairman of the Committee will be available before each Committee meeting to meet the external auditors for private discussions.

7.3.2 Appointment and tendering

- i. Review and make recommendations to the Board, to be put to members for approval at the Annual General Meeting, and the selection process, in

relation to the appointment, reappointment and removal of the external auditors and the associated fees.

- ii. Recommend to the Board that the external audit is put out to tender at least as often as it required by applicable law, rules, regulations and best practice.
- iii. If the Committee recommends considering the selection of possible new external auditors, initiate and oversee a fair tendering and selection process for the auditors.
- iv. If the external auditor resigns, investigate the issues giving rise to resignation and consider whether any action is required.

7.3.3 Remuneration and other terms of engagement

- i. Agree the remuneration to be paid to the external auditors in respect of audit and non-audit services to be provided and the other terms of engagement of the external auditors, including the terms of engagement letter issued by the external auditors at the start of each audit.

7.3.4 Annual audit cycle

- i. At the start of each annual audit cycle, ensure that appropriate plans are in place for the audit. Obtain from the external auditors in connection with any audit, a timely written report relating to the Group's Annual Report and Accounts, including prompt notification of any significant audit findings and any significant problems encountered in carrying out the audit.
- ii. Review, with the external auditors, the findings of their work. Review and monitor management's responsiveness in remedying the external auditor's finding and recommendations. Discuss with the external auditor any matters arising including major issues from the statutory audit that may have an impact on regulatory capital or regulatory disclosures.

7.3.5 Independence and objectivity

- i. Assess, annually, the independence and objectivity of external auditors, taking into consideration relevant law, regulations and professional requirements and ethical standards for auditors.
- ii. Satisfy itself that there are no relationships (such as family, employment, investment financial or business) between the external auditor and the Society (other than in the ordinary course of business) which could adversely affect the external auditor's independence and objectivity.
- iii. Agreeing with the Board a policy on the employment of former employees of the Society's external auditor, then monitoring the implementation of this policy.
- iv. Monitor the external auditor's compliance with the Ethical Standards for Auditors relating to, among other things, the rotation of audit engagement partners, the level of fees that the Group pays in proportion to the overall fee income of the firm, and other related regulatory requirements.
- v. Consider whether fees (and the level of fees) for audit or non-audit services are appropriate to enable an effective and high-quality audit to be conducted.

7.4 Whistleblowing

- 7.4.1 Oversee the whistleblowing policies and procedures for capturing and responding to whistle-blower concerns, assess their effectiveness and ensure management notify all whistleblowing incidents to the Board.
- 7.4.2 Annually review the adequacy, operation and effectiveness of the arrangements by which staff, may, in confidence, raise concerns and allow effective assessment and escalation of concerns.

7.5 Regulatory Reporting

- 7.5.1 Review arrangements established by management for compliance with regulatory financial reporting and best practice requirements including the requirements and recommendations of relevant regulatory or supervisory bodies.
- 7.5.2 Review all reports required to be commissioned from the Society's internal auditors by the PRA/FCA.

8. Reporting

- 8.1 The Chairman of the Committee shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 8.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 8.3 The Committee shall produce a report to be included in the Annual Report and Accounts covering its activities, including an explanation of how the Committee has addressed the effectiveness of the external audit process, the significant issues the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the external auditor. In this context, the Committee should exercise judgement in deciding which issues it considers significant but should include at least those matters that have informed the Board's assessment of whether the Society is a going concern.

9. Committee Governance and Resources

- 9.1 The Committee shall:
 - 9.1.1 Conduct an annual self-assessment and report any conclusions and recommendations to the Board and, as part of this assessment, shall consider whether or not it receives adequate and appropriate support in fulfilment of its role and whether or not its current workload is manageable;
 - 9.1.2 Have access to sufficient resources in order to carry out its duties, including access to external advisers, at the Society's expense, and the Company Secretary for assistance as required;
 - 9.1.3 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;
 - 9.1.4 Give due consideration to the necessary laws and regulations impacting the Society's business.

10. Terms of Reference Review

- 10.1 These Terms of Reference shall be reviewed by the Committee at least once a year and any proposed amendments will be recommended to the Board for approval. Changes to the Terms of Reference must be approved by the Society's Board.

Updated and Approved 23 February 2021