

# British Business Bank Plc

## Board Audit Committee Terms of Reference

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### 1. Membership

- 1.1. The Committee shall comprise at least three members. Membership shall include at least one Member of the Board Risk Committee. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chair of the Board Audit Committee (the 'Committee Chair').
- 1.2. The Shareholder Representative Director is entitled to be a member of the Committee or nominate a representative of UKGI or the Department for Business and Trade (or any successor Department) to attend as an observer in the event that the Shareholder Representative Director is unable to attend.
- 1.3. All members of the Committee shall be independent Non-Executive Directors, at least one of whom shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies. The Chair of the Board shall not be permitted to be a Member of the Committee.
- 1.4. The Chair of the Board has the right to attend Committee meetings. Other individuals, including the External Auditor, the Managing Director, Internal Audit, the Chief Executive Officer, the Chief Financial Officer and the Chief Risk Officer will be invited to attend meetings of the Committee on a regular basis and other Non-Members including Board Members may be invited to attend all or part of any meeting as and when appropriate and necessary, at the discretion of the Committee Chair.
- 1.5. Appointments to the Committee shall be for a period of up to three years, which may be extended for a further period of up to three years, provided the Director still meets the criteria for Membership of the Committee. Any appointment beyond six years should be subject to rigorous review.
- 1.6. The Board shall appoint, remove or replace the Committee Chair, who shall be a Non-Executive Director. In the absence of the Committee Chair or a deputy nominated by the Committee Chair (the 'Nominated Deputy Chair'), the remaining members present shall elect one of themselves to chair the meeting.
- 1.7. The Company Secretary, or their nominee, shall act as the Secretary of the Committee (the 'Committee Secretary') and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

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## **2. Meeting Frequency**

- 2.1 The Committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 2.2 Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals in the Company's governance, including the Board Chair, the Chief Executive Officer, the Chief Financial Officer, the External Auditor, and the Managing Director Internal Audit. In addition, the Committee Chair should seek engagement with the Shareholder's Representative on significant matters related to the Committee's areas of responsibility.

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## **3. Quorum**

- 3.1 The quorum necessary for the transaction of business shall be two Members, one of whom must be the Chair or Nominated Deputy Chair.
- 3.2 Decisions should normally be reached on a consensus of Committee members. In the event of a non-consensus, decisions on any matter can be reached on a majority basis, with the Chair having a casting vote in the event of a tie. A Committee member who remains opposed to a proposal after a vote, may ask for their dissent to be noted in the minutes.

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## **4. Notice of Meetings**

- 4.1 Meetings of the Committee shall be convened by the Committee Secretary at the request of any of its Members or at the request of the External Audit Lead Partner or Managing Director, Internal Audit, if they consider it necessary.
- 4.2 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, any other person required to attend, no later than five working days before the date of the meeting. Committee Papers are available for review by Board Members.
- 4.3 Meetings may be held in person or by telephone or other electronic means, so long as all participants can contribute to the meeting simultaneously.

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## **5. Minutes of the Meeting**

- 5.1 The Committee Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- 5.2 Draft minutes of Committee meetings shall be circulated within three weeks to the Committee Chair. Minutes should be reviewed for approval at the next Committee meeting. Once approved, Minutes should be available to all other Members of the Board unless it would be inappropriate to do so in the opinion of the Committee Chair.
- 5.3 Final copies of the minutes of the meetings of Board Audit Committee should be maintained for the Company's records.

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## 6. Duties

The Committee shall carry out the duties detailed below for the Company, major subsidiary undertakings and the Group as a whole, as appropriate.

### 6.1 *Going Concern*

The Committee shall ensure the Bank receives the necessary written assurance from its Shareholder(s) that it will continue to provide the required financial support to enable the Company to continue as a Going Concern.

### 6.2 *Financial reporting*

- (A) The Committee shall monitor the integrity of the Financial Statements of the Company, including its Annual Report and Accounts, interim management statements (where prepared), and any other formal announcement relating to its financial performance, reviewing, and reporting to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the External Auditor.
- (B) In particular, the Committee shall review, challenge, and approve where necessary:
  - (i) the consistency of, and any changes to, significant accounting policies both on a year-on-year basis and across the Company/Group, including compliance with relevant accounting standards.
  - (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (iii) whether the Company has followed the approved accounting policies and made appropriate estimates and judgements. This includes, but is not limited to, in relation to the Company's fair value through profit and loss (FVTPL) investment assets and the calculation of Expected Credit Losses (ECLs) for the Company's amortised cost assets;
  - (iv) the clarity and completeness of disclosure in the Company's Financial Statements and the context in which statements are made; and
  - (v) all material information presented with the Financial Statements, such as the business review and the Corporate Governance Statements relating to the audit.
- (C) The Committee shall review, challenge, and approve where necessary the methodology used to prepare performance related or other financial information to be published or provided to its Shareholder(s).
- (D) 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.
- (E) The Committee shall also review and recommend to the Board for approval the Company's financial statements to be consolidated into the Annual Report and Accounts of the Shareholder and laid before Parliament.
- (F) The Committee shall review whether the Company's Financial Statements, to the extent necessary, comply with:
  - (i) any bespoke reporting requirements from the Shareholder Relationship Framework Document;

- (ii) duty to oversee the implementation of the processes to support the Accounting Officer's compliance with the relevant requirements of Chapter 3 of Managing Public Money in particular with regard to propriety, regularity and value for money;
  - (iii) Government Accounting Rules;
  - (iv) the reporting requirements of the Public Accounts Committee;
  - (v) the annual Financial Delegation and Budget Allocation; and
  - (vi) the financial reporting requirements of the Shareholder.
- (G) Where the Company is responsible for providing to the Department for Business, Energy and Industrial Strategy (or successor Department) financial reporting information for assets and liabilities that are held directly on their Statement of Financial Position the Committee shall review, challenge, and approve before this information is provided at key reporting dates including year-end. This includes, but is not limited to, the Covid Guarantee Loan Schemes Expected Credit Losses and fraud estimates and Future Fund fair valuations.

### 6.3 *Narrative reporting*

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 the Shareholder to assess the Company's performance, business model and strategy and whether it informs the Board's statement in the annual report on these matters that is required under the Code.

### 6.4 *Internal controls*

The Committee shall:

- (A) keep under review the adequacy and effectiveness of the Company's internal financial controls systems that identify, assess, manage, and monitor financial risks, and other internal control and risk management systems, including but not limited to, controls to prevent and detect fraud, bribery and corruption, and
- (B) review and approve the statements to be included in the Annual Report and Accounts concerning internal controls.

### 6.5 *Internal Audit*

The Committee shall:

- (A) approve the appointment or termination of appointment of the Managing Director, Internal Audit and co-sourcing arrangements;
- (B) review and approve the charter of the Internal Audit function and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors;
- (C) ensure the Internal Auditor has direct access to the Board Chair and to the Committee Chair, and is accountable to the Committee;
- (D) review and assess the annual Internal Audit work plan to ensure it is aligned to the key risks of the business;

- (E) receive a report on the results of the Internal Auditor's work on a periodic basis;
- (F) review and monitor management's responsiveness to the Internal Auditor's findings and recommendations;
- (G) meet with the Managing Director, Internal Audit at least once a year without the presence of management; and
- (H) monitor and review the effectiveness of the Company's Internal Audit function, in the context of the Company's overall risk management framework.

## 6.6 *Speak Up*

The Committee shall:

- (A) review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters, and
- (B) ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

## 6.7 *External Audit*

The Committee shall comply with its obligations under the Shareholder Relationship Framework Document in respect of the appointment of External Auditors and subject to these obligations shall:

- (A) consider and make recommendations to the Board, to be put to the Shareholder for approval at the Annual General Meeting of the Company, in relation to the appointment, re-appointment and removal of the Company's External Auditor;
- (B) review the quality and effectiveness of the services provided by the incumbent Auditor;
- (C) if an Auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (D) oversee the relationship with the External Auditor including (but not limited to):
  - (i) recommendations on their remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high-quality audit to be conducted;
  - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (iii) assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the Auditor as a whole, including the provision of any non-audit services;

- (iv) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the Auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
  - (v) agreeing with the Board a policy on the employment of former employees of the Company's Auditor, and monitoring the implementation of this policy;
  - (vi) monitoring the Auditor's compliance with relevant ethical and professional guidance on the rotation of Audit Director/Partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and Director/Partner and other related requirements;
  - (vii) assessing annually the qualifications, expertise and resources of the Auditor and the effectiveness of the audit process, which shall include a report from the External Auditor on their own internal quality procedures;
  - (viii) seeking to ensure co-ordination with the activities of the Internal Audit function; and
  - (ix) evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their Auditor from the market in that evaluation;
- (E) 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 management being present, to discuss the Auditor's remit and any issues arising from the audit;
- (F) review the findings of the audit with the External Auditor. This shall include but not be limited to, the following:
- (i) a discussion of any major issues which arose during the audit;
  - (ii) key accounting and audit judgements;
  - (iii) levels of errors identified during the audit; and
  - (iv) the effectiveness of the audit process.

The Committee shall also:

- (G) review any Representation Letter(s) requested by the External Auditor before they are signed by Management;
- (H) review the Management Letter and Management's response to the Auditor's findings and recommendations; and
- (I) develop and implement a policy on the supply of non-audit services by the External Auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.

## 6.8 *Environmental, Social and Governance*

The Committee is responsible for ESG related disclosures including:

- (A) the monitoring the reporting process for ESG disclosures and the integrity of the ESG disclosures in the financial statements of the Company; and
- (B) determining the extent to which ESG disclosures require assurance.

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## 7. **Reporting Responsibilities**

- 7.1 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. This report shall include:
  - (A) the significant issues that it considered in relation to the financial statements (required under paragraph 6.2(A)) and how these were addressed;
  - (B) its assessment of the effectiveness of the external audit process (required under paragraph 6.7(D)(vii)) and its recommendation on the appointment or reappointment of the External Auditor; and
  - (C) any other issues on which the Board has requested the Committee's opinion.
- 7.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 7.3 The Committee shall compile a report on its activities to be included in the Company's Annual Report. The report should include an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the Financial Statements and how these issues were addressed, having regard to matters communicated to it by the Auditor; and all other information requirements set out in the QCA Guidelines on corporate governance, applicable for Small and Mid-size Quoted Companies (the "**QCA guidelines**").
- 7.4 In compiling the reports referred to in 7.1 and 7.3, 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. The report to the Shareholder need not repeat information disclosed elsewhere in the Annual Report and Accounts but could provide cross-references to that information.

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## 8. **Other Matters**

The Committee shall:

- 8.1 have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for assistance as required;
- 8.2 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;
- 8.3 give due consideration to laws and regulations, the provisions of the QCA guidelines and any other applicable rules, as appropriate;

- 8.4 be responsible for co-ordination of the Internal and External Auditors;
  - 8.5 oversee any investigation of activities which are within its terms of reference;
  - 8.6 work and liaise as necessary with other Board Committees; and
  - 8.7 arrange for periodic reviews of its own performance and, 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.
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## **9. Authority**

The Committee is authorised to:

- 9.1 seek any information it requires from any employee or Director of the Company in order to perform its duties;
  - 9.2 obtain at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
  - 9.3 call any employee to be questioned at a meeting of the Committee as and when required; and
  - 9.4 have the right to publish in the Company's Annual Report, details of any issues that cannot be resolved between the Committee and the Board.
  - 9.5 to make written resolutions outside of the formal Committee meetings in line with BBB Articles of Association paragraph 97(C) and 99.
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Approved by the Board: 13 July 2023