

## **HINGHAM INSTITUTION FOR SAVINGS**

### **AUDIT COMMITTEE CHARTER AND POLICY**

#### **AUDIT COMMITTEE CHARTER**

##### **OVERVIEW OF RESPONSIBILITIES**

It is the function of the Audit Committee of Hingham Institution for Savings to assist the Board of Directors of the Bank in monitoring compliance with Board policies and applicable laws and regulations, ensuring comprehensive audit coverage by both the internal and external auditors, and in overseeing the external reporting of the Bank.

As a publicly traded company, the Bank is subject to the rules and regulations of the FDIC, which are analogous to those of the Securities and Exchange Commission, and other applicable securities exchanges. It is the responsibility of the Audit Committee to oversee compliance with these rules and regulations.

The Audit Committee will meet as often as necessary but at least four times each year including a meeting with the Bank's external auditors prior to the issuance of the Annual Report. A majority of the members of the Committee will constitute a quorum at any meeting.

The Audit Committee has authority to conduct or authorize investigations into any matters it considers appropriate to carry out its responsibilities, with access to all books, records, facilities, and personnel of the bank. It is empowered to:

- Appoint, compensate, and oversee the work of any registered public accounting firm for audit purposes;
- Resolve any disagreements between management and the auditor regarding financial reporting;
- Pre-approve all auditing services;
- Retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation;
- Seek any information it requires from bank employees (all of whom are directed to cooperate with the committee's requests) or external parties; and
- Meet with company officers, external auditors, or outside counsel, as necessary.

Compensation for these meetings will be set by the full Board of Directors of the Bank. The Chairman and Clerk of the Committee shall be designated by the full Board of Directors. The Committee shall be composed of a minimum of three Directors. All members shall be independent Directors, and at least one member must have past employment experience in

finance or accounting or other comparable experience or background including a current or past position as a chief executive or finance officer sufficient to meet the requirements for such an expert as defined in Sarbanes-Oxley. All members must be capable of reading and understanding fundamental financial statements. It is incumbent on the members of the Audit Committee to acquire and maintain the necessary banking knowledge to keep them informed about the Bank's affairs in meeting its overall responsibilities to the shareholders, depositors, and regulatory agencies.

## **DUTIES AND RESPONSIBILITIES**

This Audit Committee Charter and Plan is intended to include the following duties and responsibilities of the Committee's members:

- Direct responsibility for hiring and overseeing the work of the external auditors, consisting of an annual audit of the Bank's financial statements forming a part of the Annual Report on Form 10-K. The audit shall be made by an independent certified public accountant in accordance with generally accepted auditing standards.
- Reviewing the annual audit scope with the external auditors.
- Reviewing the Annual Report on Form 10-K with the external auditors before filing with the FDIC.
- Reviewing quarterly the financial reports on Form 10-Q filed with the FDIC.
- Reviewing supplemental reports issued by the external auditors in connection with their audit, containing comments and recommendations on internal controls, as well as other reports required by regulatory and other requesting agencies.
- Receiving reports from the external and internal auditors regarding the Bank's critical accounting policies and material communications between the auditors and the Bank's management.
- Selecting the internal audit firm and supervising its operations and the resolution of related comments and recommendations. Such work shall include reviewing on a quarterly basis the reports of the internal audit firm and confirm the adequacy of management's responses thereto. Meetings and discussions with the internal audit firm shall include a review of the overall control environment to ensure that management and the Board of Directors have established a sound control environment and that the necessary components of internal control are present and functioning in each major area of operations.

- Reviewing annually the Bank's overall risk management process. The objectives of the review are to determine whether there are (1) active Board and senior management oversight, (2) adequate policies, procedures and limits, and (3) adequate risk management assessments. This review may be co-terminous with the Board's annual review of the Policy Manual and ERM system.
- Reviewing FDIC and state regulatory Safety and Soundness and Compliance Examination Reports upon receipt by the Bank and monitoring Bank progress in addressing any regulatory recommendations.
- Reviewing the Quarterly Loan Review Report prepared by an outside consulting firm retained by the Committee to confirm management's review of the quality level of the loan portfolio.
- Reviewing the work by Sheshunoff, engaged by Management, regarding the testing of the Bank's FDICIA/SOX internal controls infrastructure.
- Reporting at least quarterly to the Board of Directors.

#### **OTHER ADMINISTRATIVE MATTERS**

- The Committee shall establish procedures for the confidential receipt and handling of anonymous submissions of concerns from employees or others regarding questionable accounting practices or policy violations. Any such complaint should be in writing addressed to the Chairman of the Audit Committee, 49 Main Street, Hingham, MA and will be delivered in confidence to him/her.
- Procedures will be maintained to handle the receipt, retention and treatment of complaints received by the Bank regarding accounting matters or other policy violations. Any such complaint should be in writing addressed to the Chairman of the Audit Committee, 49 Main Street, Hingham, MA and will be delivered in confidence to him/her.
- Committee members may not accept consulting, advisory or other compensatory fees from the Bank, other than Director's fees which by definition shall include fees paid for service as a member, chair or clerk of the Board or any Committee thereof. Members of the Audit Committee will certify their independence and compliance with membership guidelines on an annual basis.
- Tax services and other non-audit services from the Bank's external audit firm that are not expressly prohibited by regulatory authorities may continue to be provided by such firm, so long as they are pre-approved by the Audit Committee.

- Where applicable, reports to the FDIC shall disclose that the Audit Committee includes at least one member who is a “financial expert” as defined.

All of the above duties and responsibilities shall be subject to review and change at the discretion of the full Board of the Bank.

# **INTERNAL AUDIT POLICY**

## **OVERVIEW AND PURPOSE**

The Bank will maintain a competent internal audit function which reports directly to the Audit Committee of the Board of Directors. The internal audit function serves as an important element of the Bank's overall system of internal control. In order to properly balance the size and complexity of the Bank's activities and the cost of maintaining an effective audit function, the Bank believes that its needs are best met through the use of an outsourced internal audit function independent of the Bank's external auditors. In accordance with the [FIL-21-2003](#), the Bank acknowledges that these arrangements with outsourcing vendors do not relieve directors and senior management of their responsibility for maintaining an effective system of internal control and for overseeing the internal audit function.

## **AUDIT MANAGER**

While the outsourced internal audit function will report directly to the Audit Committee, the Vice President, Chief Compliance Officer, who has appropriate knowledge of the responsibilities of the audit function, shall be the Bank's "audit manager". This individual is entirely independent of the financial function. Our outsourcing arrangements are structured so that the outsourcing vendor performs all the procedures or tests of the system of internal control, including the global risk assessment and audit schedule. Under this arrangement, the audit manager is responsible for acting as the Committee's and Management's liaison with the outsourced firm to coordinate scheduling and assist in reporting the results of the outsourced audit work, including findings, conclusions, and recommendations.

## **QUALIFICATIONS OF THE INTERNAL AUDITOR**

Before engaging a new outsourced internal auditing firm, the Bank shall solicit multiple proposals and shall perform due diligence to satisfy itself that the firm selected has qualified personnel sufficient to meet its needs. Due diligence should include an evaluation of the firm's experience in performing similar services for other financial institutions and the qualifications of personnel who would be assigned to serve the Bank. This information should be obtained through a written proposal from the auditor and should be corroborated through references. The results of due diligence should be documented in writing.

In the event that the Audit Committee determines that the outsourced internal auditing firm is unable to complete the audit plan or if the Committee determines that the firm is not performing in accordance with their contract, the Committee will terminate the firm's services and engage a new firm to complete, at a minimum, any high risk areas under the plan. Simultaneously, the Committee will solicit multiple proposals and perform due diligence to select a long-term replacement.

## **DUTIES AND RESPONSIBILITIES**

The Internal Auditor will perform/update a comprehensive internal control and risk review of the Bank (this review will not extend to an assessment of the credit quality of the loan portfolio). This review is to be coordinated with the development of the annual audit plan to be presented for approval to the Audit Committee. The internal audit plan shall set forth the proposed scope of the functional areas of the Bank to be audited, a summary of the nature of the testing to be performed, the auditors' risk assessment of the area (high, medium or low) and the frequency of testing. At a minimum, areas risk rated "high" will require a review at least annually, areas rated "medium" will be reviewed at least every two years and areas rated "low" may be reviewed less frequently. In general, the annual audit plan should include sufficient information to assist Audit Committee members and management in meeting their responsibility of ensuring that the system of internal control is operating effectively.

In connection with the performance of its duties, the outsourced internal auditors will conduct their work in accordance with applicable professional standards including the use of work programs and work papers to properly document their work. The auditor's work papers and audit reports shall become a permanent part of the Bank's records and will be maintained by the Bank.

The outsourcing vendor will not perform management functions, make management decisions, or act or appear to act in a capacity equivalent to that of a member of management or an employee.

## **REPORTING OF AUDIT RESULTS**

On at least a quarterly basis, the Audit Manager and the internal auditors shall meet with the Audit Committee to present the following:

- Summary of Audits Completed during the Quarter
- Summary and Status of Open Audit Comments
- Annual Audit Plan Status
- Copies of Audit Reports Issued during the Quarter

More frequent meetings may be held at the request of the Audit Committee, the internal auditors or management.

Generally, all audits performed during the quarter will have a report and management response. However, if an audit is performed late in the quarter, the report and response may not be available. These audits will be documented as "in process" and will be reviewed during the subsequent meeting. For any that do not meet this criterion, the Internal Auditor will provide an explanation for the delay in reporting. In any instance, the Internal Auditor will make the Committee aware of any findings that are considered 'high risk.' To avoid delinquent reporting,

Senior Management will meet with the Internal Auditor before each quarterly Audit Committee meeting to ensure that reports have been properly addressed by management. This meeting will be chaired by the President and will include all members of senior management.

#### **AUDIT COMMITTEE OVERSIGHT OF SHESHUNOFF**

As part of the ongoing process of monitoring the work of the Internal Auditor, the Vice President and Chief Compliance Officer or his or her designate will perform a review of the work papers of the Internal Auditor ensuring that they support the findings reported to the Audit Committee. This workpaper review will include 25% of the trailing six month period and the results will be reported to the Audit Committee. This review shall generally be presented to the Audit Committee at the March and August meetings.

## **FDICIA/SOX INTERNAL CONTROLS AUDIT**

The Bank has engaged Sheshunoff to evaluate and test the Bank's internal control structure and procedures for financial reporting (SOX 404 and FDICIA). This engagement is separate from the Internal Audit engagement and is conducted on behalf of management, but may leverage work conducted as part of the Internal Audit. This engagement is based on a separate set of FDICIA/SOX risk and control matrices that are reviewed at least annually or more often as required by the Vice President and Chief Financial Officer. Sheshunoff performs two rounds of testing as part of this engagement (the first at the end of the 2nd quarter, and the second near year end) and the results of this testing will be reviewed by Management and with the Audit Committee.

The Bank transitioned to this structure in 2016, after having used two part-time internal staffers for six years that also had other duties. As the number of controls and transactional volumes subject to testing expanded, management, in consultation with the Audit Committee, felt that the Bank needed to professionalize and invest in a FDICIA/SOX controls testing process commensurate with this growth and the risk inherent in this area. Sheshunoff leverages experience from other FDICIA banks, knowledge of the Bank's internal processes, and provides continuity and staffing support that can meet the Bank's growing needs. This engagement lessens the Bank's reliance on part-time staffers and provides long-term assurance that the Bank has access to the appropriate skill sets and personnel to perform this function in the future. This engagement was designed in consultation with the external auditor, Wolf and Company,