

Internal Audit Charter

Purpose

As the Society's third line of defence, the purpose of Internal Audit is to provide independent assurance to the Board and Executive Management on the quality and effectiveness of governance, risk management and internal controls to monitor, manage and mitigate key risks to achieving the Society's objectives and protecting its assets, reputation and sustainability.

Scope

Internal Audit, under the governance of the Audit Committee, remain free to decide which audits to perform, how to structure the audit universe which is used to determine the scope, frequency and timing of its work, the procedures it follows and the content of its reports. It makes risk-based decisions as to which areas should be included in the audit plan – it does not necessarily have to cover all of the potential scope areas every year.

The scope of Internal Audit's work is unrestricted and includes:

- Internal governance
- The information presented to the Board for strategic decision making
- The setting of, and adherence to, risk appetite and tolerance
- The risk and control culture
- Risks of poor customer outcomes
- Capital, liquidity and other prudential regulatory risks
- Key corporate events

To this end, Internal Audit will assess the design and operating effectiveness of the Society's policies and processes, and whether the outcomes achieved through the implementation of these are in line with the Society's strategic objectives, risk appetite and values. This will include assessing whether the culture of risk management and governance structures are functioning as intended, with the aim that:

- Business strategy, programmes, plans and objectives are achieved
- Significant risks are appropriately identified, managed and reported to the Board and Executive Management
- The actions of the Society's officers, directors, employees and contractors are in compliance with Society's policies, procedures, culture and values, laws, regulations, and governance standards
- Financial, management and operating information is fair, balanced, reasonable and presented to relevant stakeholders on a timely basis
- Products, services and processes result in fair outcomes for the Society's customers
- Assets are valued appropriately and protected from loss, theft or fraud
- Established processes and systems enable compliance with the policies, procedures, culture and values, laws, and regulations that could significantly impact the Society

The activities of Internal Audit do not relieve line management of their responsibility for maintaining a framework of effective internal controls.

Responsibilities

The responsibilities of Internal Audit include:

- Developing an annual risk based audit plan (the Plan) and for the approval of the Audit Committee
- Delivering the Plan and reporting significant findings to Executive Management, the Audit Committee, the Board Risk Committee and the Board

- Providing periodic opinions on the overall effectiveness of the governance and risk and control framework across the Society
- Providing assurance on key business projects (based on their risk and significance to the Society)
- Challenging Management on emerging risks and highlighting themes and trends from Internal Audit work
- Verifying and reporting on the actions taken by Management in response to issues included in audit reports
- Issuing periodic reports to the Audit Committee and Executive Management covering a range of requirements including progress against the Plan and budget, details of significant audit reports, and the level and progress of overdue findings arising from audit reports.

To deliver this, the Chief Internal Auditor's responsibilities include:

- Assessing the resources and skills required within Internal Audit
- Recruiting and maintaining a team with the right skills, knowledge and experience to challenge management and deliver the Plan
- Providing a quality assurance function to evaluate the performance of Internal Audit on a regular basis
- Delivering the Plan within agreed budget, or obtaining approval from the Audit Committee for any costs outside of budget.

In carrying out its role, Internal Audit will seek to:

- Work with Management to add value through high quality analysis and pragmatic and cost effective solutions to control related matters;
- Identify areas of good practice and themes where lessons can be learned across the Society;
- Be risk focused; and
- Maintain a professional audit team (including through use of co-sourcing support) with sufficient skills, knowledge and experience.

Authority

To establish, maintain, and assure that Internal Audit has sufficient authority to fulfill its duties, the Audit Committee will:

- Approve Internal Audit's Charter.
- Approve the risk-based Internal Audit plan.
- Approve the Internal Audit budget and resource plan.
- Receive communications from the Chief Internal Auditor on Internal Audit's performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the Chief Internal Auditor
- Make appropriate inquiries of Management and the Chief Internal Auditor to determine whether there is inappropriate scope or resource limitations.

The following characterise Internal Audit's rights and authority:

- The Chief Internal Auditor reports directly to the Audit Committee Chair with an administrative reporting line to the Chief Executive and has the right of access to the Chair of the Board and Executive Directors
- Attendance at the Executive and other governance committee meetings and Audit Committee meetings
- Unrestricted and timely access (as authorised by the Board) to all the Society's operations, records, systems and assets in whatever media and wherever stored and to staff, Management and Directors

Accountability

In discharging his/her duties, the Chief Internal Auditor shall be accountable for:

- Providing an assessment of the adequacy and effectiveness of the Society's processes for controlling its activities and managing risks
- Reporting on material control issues that impact the achievement of the Society's strategy and objectives
- Reporting on Management's response to addressing significant control issues
- Reporting on the progress of the Internal Audit department in meeting its objectives and on the adequacy of its resources

Independence

Internal Audit colleagues will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment. Internal Audit colleagues who have transferred into Internal Audit from other areas of the Society will not provide internal audit services in relation to business activity for which they have had responsibility within the previous twelve months.

Internal Audit colleagues must exhibit the highest level of professional objectivity and confidentiality in gathering, evaluating, and communicating information about the activity or process being examined. Internal Audit colleagues must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments. Internal Audit colleagues must conduct their work with proficiency and due professional care.

On the approval of the Chief Internal Auditor, Internal Audit can engage in consultancy work to assist management in activities such as developing effective control frameworks. This will form a limited proportion of Internal Audit's work, and individuals' involvement in the work is considered in light of their future audit work to ensure Internal Audit's independence and objectivity are not compromised. Internal Audit colleagues may not provide consulting services relating to operations for which they had previous responsibilities.

Internal Audit may outsource or co-source certain audits due to resourcing constraints or to provide specialised expertise. The outsource or co-source provider will be required to comply with the principles of the Audit Charter and must be independent of the area to be reviewed.

The Chief Internal Auditor will confirm to the Audit Committee, at least annually, the organisational independence of Internal Audit.

Once the Chief Internal Auditor has been in post for seven years the Audit Committee will discuss annually and conclude on the Chief Internal Auditor's ongoing objectivity and independence.

Professional Standards and Disclosure

Internal Audit and all Internal Audit colleagues will comply with the Chartered Institute of Internal Auditors' (CIIA) mandatory guidance, the International Professional Practices Framework and the CIIA Guidance on Effective Internal Audit in the Financial Services Sector. In addition, Internal Audit adheres to the Society's relevant policies and procedures and the Internal Audit Procedures Manual.

Internal Audit will maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of Internal Audit activity. The Chief Internal Auditor will report to the Audit Committee on the QAIP, including results of internal assessments. Internal Audit's effectiveness will be self-assessed annually with an external review commissioned at least every 5 years.

Internal Audit will provide any information requested by the Society's external auditors and regulators to allow them to discharge their obligations.

Approval and Review

This Charter will be reviewed at least annually by the Chief Internal Auditor and the conclusion and any recommendations will be proposed to the Audit Committee for approval.