

Internal Audit Charter

Introduction

The Chartered Institute of Internal Auditors ('CIIA') defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. This Internal Audit Charter is intended to define the role, responsibility and accountability of the Society's Internal Audit function.

The charter will be reviewed annually by the Board's Audit Committee.

Role and scope of work

The primary role of Internal Audit is to help the Board and Executive Management to protect the assets, reputation and sustainability of the Society. It does this by assessing whether all significant risks are identified and appropriately reported by management and the Risk function to the Board and Executive Management; evaluating whether they are adequately controlled; and by challenging Executive Management to improve the effectiveness of governance, risk management and internal controls.

The Internal Audit function is responsible for evaluating the adequacy and effectiveness of the system of risk management and internal controls operated within the Society (and within outsourced/ third party relationships) across all aspects of the Society's operations. This includes the provision of assurance and consulting services to systems and processes under development. Its responsibilities are defined and monitored by the Audit Committee, on behalf of the Board.

Internal Audit provides one of three lines of defence in the Society's risk management framework. The "first line of defence" includes the operational business functions and their oversight bodies. The "second line of defence" includes risk management functions, the Board Risk Committee and its sub-committees. Internal Audit operates as the "third line of defence" and entails independent challenge through audit of key controls and wider assurance activities.

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

Standards for the Professional Practice of Internal Auditing

Internal Audit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing*, and the Definition of Internal Auditing. Internal Audit will also conform with the CIIA *Guidance on Effective Internal Audit in the Financial Services Sector*. The Chief Internal Auditor (CIA) will report annually to senior management and the Audit Committee regarding Internal Audit's conformance to the Code of Ethics, the *Standards* and the CIIA guidance.

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 (CIA) on Internal Audit's performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the CIA
- Approve the remuneration of the CIA
- Make appropriate inquiries of management and the CIA to determine whether there is inappropriate scope or resource limitations.

The CIA will have unrestricted access to, and communicate and interact directly with, the Audit Committee and its Chairman, including in private meetings without management present.

The Audit Committee authorises Internal Audit to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Attend and observe any executive committee meetings or other management decision-making fora
- Have unrestricted access to the Board, its Chairman, its sub-committees and records
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary Society personnel, as well as other specialised services from within or outside the Society, in order to complete the engagement.

A holder of highly confidential or sensitive information is entitled to restrict access to the CIA alone.

Independence and objectivity

The CIA will report functionally to the Audit Committee Chair and administratively (i.e., day-to-day operations) to the Chief Executive Officer (CEO).

Once the CIA has been in post for seven years the audit committee will discuss annually and conclude on the CIA's ongoing objectivity and independence.

The CIA meets the standards set out in the Code of Conduct for Approved Persons.

The CIA will ensure that Internal Audit remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the CIA determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for the Society
- Initiating or approving transactions external to Internal Audit
- Directing the activities of any Society employee not employed by Internal Audit, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors

Where the CIA has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined
- Make balanced assessments of all available and relevant facts and circumstances
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments

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

The CIA will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

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

Internal Audit will not place reliance on the work of second line assurance functions unless a thorough evaluation of the effectiveness of the function has taken place.

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 being reviewed.

Scope of internal audit activities

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 activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments on the adequacy and effectiveness of governance, risk management, and control processes. Internal Audit assessments include evaluating whether:

- Risks relating to the achievement of the Society's strategic objectives, reputation and sustainability are appropriately identified and managed
- The three lines of defence model is operating effectively and that the processes and quality of the work of the 1st and 2nd line assurance providers are adequate
- 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
- The outcomes of operations or programs, including key corporate events, are consistent with established goals and objectives
- Products, services and processes result in fair outcomes for the Society's customers
- Operations or programs, including key corporate events are being carried out effectively and efficiently
- Established processes and systems enable compliance with the policies, procedures, culture and values, laws, and regulations that could significantly impact the Society.
- The Society's activities are properly recorded
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable, timely, and have integrity
- Resources and assets are acquired economically, used efficiently, and protected adequately

In the event that significant adverse events arise, Internal Audit will report to the Audit Committee on the root cause any areas where improvements can be made.

Internal Audit will take account of the work of other internal and external assurance and consulting service providers when planning its activities, but only having first evaluated the effectiveness of those functions or providers.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Responsibility

The Chief Internal Auditor has the responsibility to:

- Submit for approval, at least annually, to senior management and the Audit Committee a flexible audit plan and budget using a methodology that includes an independent assessment of risk
- Communicate to senior management and the Audit Committee the impact of resource limitations on the Internal Audit plan
- Review and adjust the internal audit plan, as necessary, in response to changes in the Society's business, risks, operations, programmes, systems, and controls
- Communicate to senior management and the Audit Committee any significant interim changes to the internal audit plan
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources and the documentation of work programs and testing results
- Ensure the effective communication of engagement results, with appropriate conclusions and corrective actions agreed with the business based on an acceptable and practicable timeframe
- Ensure the follow up of engagement findings and corrective actions, and report periodically to senior management and the Audit Committee any corrective actions not effectively implemented
- Prepare regular reports to Executive Management, to the Audit Committee and where appropriate the Board's Risk Committee, which summarise the results of audit activities including the identification of significant control weaknesses and themes and which provide opinions on the adequacy of the control framework and on management's awareness and pro-activity with respect to risk and control issues
- Provide an annual opinion on the overall effectiveness of the governance and risk and control framework across the Society, including an opinion on management risk awareness and whether risk appetite is being adhered to across the Society
- Provide an independent view of whether the key risks to the Society have been identified, including emerging and systemic risks, fraud risks, governance issues and other matters requiring the attention of, or requested by, the Audit Committee
- Report on the progress of the Internal Audit function in meeting its functional objectives using appropriate KPIs
- Oversee quality assurance processes designed to maintain high standards of audit work and to evaluate performance, and providing periodic reports to Audit Committee setting out the results of reviews undertaken
- Ensure Internal Audit collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Internal Audit charter
- Liaise with external auditors and others with responsibility for performing assurance activities in the achievement of suitable coverage across the activities of the Society
- Ensure emerging trends and successful practices in internal auditing are considered and approval is sought from Audit Committee for significant changes to Internal Audit working practices

- Establish and ensure adherence to policies and procedures designed to guide the effective operation of the Internal Audit function
- Ensure adherence to the Society's relevant policies and procedures, unless such policies and procedures conflict with the Internal Audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit Committee
- Ensure conformance of Internal Audit with the *Standards*, and the CIIA's Financial Services Guidance and report annually to Audit Committee either to confirm this or to provide action plans to address any significant conformance issues
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld

Approach 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.

Quality assurance and improvement programme

Internal Audit will maintain a quality assurance and improvement programme (QAIP) that covers all aspects of Internal Audit activity. The programme will include an evaluation of Internal Audit's conformance with the *Standards* and the CIIA's Financial Services guidance and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The programme will also assess the efficiency and effectiveness of Internal Audit and identify opportunities for improvement.

The CIA will communicate to senior management and the Audit Committee on the Internal Audit functions' QAIP, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Society.