

Newbury Building Society

Internal Audit Charter

May 2018



The Internal Audit Charter

Purpose, Role and Responsibilities



▶ Purpose

The primary role of internal audit is to assist the board and executive management in protecting the assets, reputation and sustainability of the organisation. The Internal Audit function is designed to provide independent, objective assurance and advice to assist senior management in appropriately managing the key risks to which the business is exposed. Internal audit perform this function through providing independent, objective assurance to management on the effectiveness of the control environment established to manage the organisations key risks.

▶ Role of Internal Audit

The internal audit function's role is to assess the extent to which the system of controls in place to mitigate business risks, are designed appropriately and have been effectively implemented, to allow the business to achieve its stated objectives within the risk appetite profile defined by the board.

The system of control comprises policies, procedures, specific control activities and cultural indicators.

Internal audit is an independent function and as such, does not assume any managerial responsibility for any part of the operations of the organisation. This does not prevent internal audit from providing recommendations and advice to management on enhancements to the control environment; indeed this is a core component of an effective internal audit function.

▶ Responsibilities of Internal Audit

1. Independent Risk Assessment

To develop and implement a process by which business risks are independently assessed regularly, to ensure that the assurance coverage provided by internal audit remains appropriate and sufficient, considering changes to the business strategy, operations, risk profile or control environment.

2. Internal Audit Plan

Internal audit will develop an annual plan for approval by the audit committee, which sets out the timing and scope of the audit programme for each year. The audit plan is based on the output of the risk assessment, as well as interviews with key business management and known regulatory / industry issues of relevance.

The Audit Committee will approve the plan and by doing so, will satisfy themselves that the plan is of sufficient coverage and the scope of sufficient depth, to address all material business risks. Any changes to the plan will be proposed to the Audit Committee and approved prior to formally being implemented.

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Responsibilities



3. Review

Internal audit will implement the audit plan and perform each individual audit in line with the agreed internal audit methodology. Each audit will be subject to detailed scoping, including interviews with key management. The design and operating effectiveness of controls related to the area subject to the scope of the audit will be evaluated and tested.

Findings and recommendations will be made to management through the publication of a report for each audit undertaken. The output of these may also include agreement of management actions to address identified weaknesses in the control environment.

4. Tracking of audit findings and management actions

Internal Audit will track and monitor the closure of management actions arising from audit findings and report these to the Audit Committee.

5. Reporting

Internal report will report findings from each audit to the responsible executives for the areas under review. In addition, internal audit will report on a quarterly basis to the Audit Committee progress of delivery of the annual audit plan and status of management actions

- ▶ Comments on the draft internal audit report should be communicated to the Internal Audit team within ten (10) working days after the draft internal audit report has been issued. Any discussions required need to be scheduled within the five (5) working days to enable the clarification of any outstanding issues pertaining to reported findings and thereby meet the 10 working day deadline.
- ▶ The following commentary will be required of management for each audit finding included in the audit report:
 - ▶ Reason / root cause of issue;
 - ▶ Management action;
 - ▶ Responsible person(s) for the implementation of the management action; and
 - ▶ Due date for the implementation of the management action.
- ▶ The final internal audit report will be issued within five (5) working days after final management comments are received

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Professional standards, objectivity and independence



▶ **Compliance with Chartered Institute of Internal Auditors (CIIA) standards**

Internal Audit has a responsibility to conduct themselves so that their integrity, objectivity, confidentiality and competency are not open to question. Standards of professional behaviour are based upon the Code of Ethics issued by the Chartered Institute of Internal Auditors ("CIIA") - UK and Ireland. Internal auditors will:

- ▶ Exercise honesty, objectivity and diligence in the performance of their duties and responsibilities;
- ▶ Not knowingly be a party to any illegal or improper activity;
- ▶ Promote appropriate ethics and values within the organisation;
- ▶ Refrain from entering into any activity which may be in conflict with the interest of the organisation or which would prejudice their ability to objectively carry out their duties;
- ▶ Decline to accept anything that may impair or be presumed to impair their professional judgment;
- ▶ Be prudent in the use of information acquired in the course of their duties and not use confidential information for any personal gain or in a manner that knowingly would be detrimental to the welfare of the organisation;

- ▶ Use reasonable care to obtain sufficient, factual evidence to support the conclusions drawn and, in reporting, reveal such material facts known to them which, if not revealed, could distort the report of the results of operations under review or conceal an unlawful practice; and
- ▶ Engage only in those projects which they have the necessary knowledge, skill and experience

Internal Audit will operate in accordance with the CIIA recommendations. The manner in which this compliance is achieved will be set out within the annual Internal Audit Plan

▶ **Objectivity and independence**

Internal Audit is independent from the business and is directly responsible to the Chairperson of the Audit Committee with a day-to-day administrative reporting line to the Chief Risk Officer and the Head of Compliance. No individuals working within Internal Audit will take operational responsibility for day-to-day control activities or other business operations.

The Internal Audit Charter

Our Values and Service Commitment



Our values

- ▶ People who demonstrate integrity, respect and teaming.
- ▶ People with energy, enthusiasm and the courage to lead.
- ▶ People who build relationships based on doing the right thing.

Our service commitment

EY is committed to delivering consistent high-quality client service to The Society. Our service commitment is centered on our most critical objective of providing the Audit Committee and Management with independent and objective assurance over The Society's internal controls, governance and risk management processes which are designed to add value and improve The Society's operations.

We recognise that service quality extends well beyond execution of our internal audit methodology. It is driven by the quality of our team and the effectiveness and strategic value of our communications with management and the audit committee.

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