

# INTERNAL AUDIT CHARTER

## Purpose

The purpose of Internal Audit (IA) is to provide an independent and objective opinion to the Board of Directors (“the Board”) on the adequacy and functioning of the system of internal control for the Yorkshire Building Society Group (“the Group”). Specifically, this should cover whether the organisation’s framework for risk management, control, and governance processes are adequate and functioning as intended and in a manner that ensures:

- The Group’s assets, reputation and sustainability are adequately protected by its system of internal control.
- All significant risks are appropriately identified, reported to the Board and the Group’s Senior Leadership Team and effectively controlled.
- Significant financial, management, and operating information is accurate, reliable and delivered in a timely manner.
- The Group’s actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Products, services and processes result in fair outcomes for the Group’s customers.
- Programmes, plans and objectives are achieved in accordance with specifications and approvals and effective future control frameworks.
- Group activities are properly recorded and retained.

## Professional standards

IA aims to perform its activities in conformance with the Definition of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Guidance on Effective Internal Audit in the Financial Services Sector as laid down by the Chartered Institute of Internal Auditors.

IA colleagues who are also members of the Chartered Institute of Internal Auditors are required to adhere to the mandatory elements of the Institute’s International Professional Practices Framework.

## Accountability

The Head of IA, in the discharge of their duties, shall be accountable to the Board through the Chairman of the Audit Committee (AC) to:

- Provide an assessment on the adequacy and effectiveness of the Group’s processes for controlling its activities and managing its risks.
- Form an independent view of whether the key risks to the organisation have been identified, including emerging and systematic risks, and assess how effectively these risks are being managed.
- Report on significant control issues that impact the achievement of Group goals and objectives.
- Report on management’s progress in addressing significant control issues.
- Report on control effectiveness in terms of design, implementation, sustainability, management information and management risk awareness.
- Provide an overall annual opinion on the effectiveness of internal controls.
- Report on the progress of the IA function in meeting its functional objectives and on the adequacy of its resources using appropriate KPIs.
- Liaise with the Group’s regulators, sharing information with them that is relevant to their responsibilities.

## Independence

IA operates as the “third line of defence” in the Group’s risk management model. The “first line of defence” includes operational business functions and their oversight bodies, and the “second line of defence” includes risk management functions, the Group Risk Committee and its sub-committees. The “first line of defence” is responsible for managing the risks they take or encounter within their

areas and the “second line of defence” is accountable for ensuring that they are doing that in a competent manner.

IA will remain free to decide which audits to perform, the scope, frequency and timing of its work, the procedures it follows and the content of its reports. IA will make a risk-based decision 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 Head of IA and IA colleagues will not perform operational management duties in or have any authority over any of the activities audited. The Head of IA and internal audit colleagues will not direct the activities of any organisation employee not employed by IA except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

Colleagues in IA report to the Head of IA who reports administratively to the Chief Executive and is accountable to the AC. There will remain in place unrestricted access between the Chairman of the Society, the Chairman of the AC and the Head of IA.

The Head of IA will confirm to the AC, at least annually, the continued independence of IA within the Group.

### **Responsibilities**

Management has the responsibility for internal control and risk management of their business. IA has responsibility for bringing a systematic and disciplined approach to evaluating the effectiveness of the risk management, control and governance processes. Through its activities, IA will provide management with information to help management improve its risk management, control and governance processes.

In order to achieve this, the Head of IA and internal audit colleagues will:

- Develop a flexible audit plan using an appropriate risk based methodology. In developing the audit plan, IA will seek the views of the AC and the Board on its content.
- Implement the audit plan, as approved by the AC, including, as appropriate, any special tasks or projects requested by the Board and the AC Chairman. This might include audit activity requested by a regulator.
- Maintain a professional audit function with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter and deliver the audit plan.
- Evaluate and assess emerging risks, including those related to projects that are intended to help the Group achieve its strategic priorities and/or deliver new or changed services and processes. IA should determine whether corporate events are sufficiently high risk to warrant involvement on a real time basis.
- Perform audit activity enabling IA to evaluate the completeness, accuracy, relevance and timeliness of information that is presented to the Board and other decision-making bodies.
- Perform audit activity enabling IA to evaluate whether the Board has defined, agreed and reviewed its appetite for risk and whether risk appetite is reflected in the Group’s activities and reporting.
- Perform audit activity enabling IA to evaluate whether the Group delivers fair outcomes for its customers and in its interaction with relevant markets. This may include, but is not restricted to, the design and control of products, services and supporting processes in line with customer interests and conduct regulation.
- Perform audit activity enabling IA to evaluate whether processes, decisions taken and operating culture are in line with the Group’s values.
- Perform audit activity enabling IA to evaluate the adequacy and effectiveness of both “first line of defence” and “second line of defence” functions in discharging their responsibilities within the Group’s risk management model.
- Perform audit activity enabling IA to evaluate the design and operational effectiveness of the Group’s policies, processes and procedures.
- Supervise and review audit activity, identifying areas for improvement and putting in place suitable action plans.

- For the avoidance of doubt, IA audit activity will include evaluating how the Group manages its capital, liquidity, credit, operational and regulatory risks. IA will also decide from time to time whether audit activity is required with regards to significant corporate transactions including, but not limited to, decisions to use outsourcing, and acquisitions or divestments.
- Issue periodic reports to the AC and management summarising results of audit activities. These reports will include analysis of the causes of significant control weaknesses identified, the identification of common themes from audit activity, and opinion on the adequacy of management's own reporting of risk management.
- Ensure that corrective action is agreed with the business based on an acceptable and practicable timeframe.
- Perform formal verification of the actions taken by management in response to issues included in audit reports.
- Provide reporting, as required, to the Remuneration Committee on any significant control issues.
- Seek approval from the AC for significant changes to audit working practices.
- Provide the AC with periodic reports setting out the results of internal quality assurance reviews undertaken on the activities of IA.
- Liaise with external auditors in the achievement of suitable coverage across the activities of the Group.
- For the avoidance of doubt, Internal Audit will not perform consultancy engagements.

#### **Authority**

The Head of IA and IA colleagues are authorised to:

- Have full, unrestricted and timely access to all functions, systems, records, property, and colleagues. (A holder of highly confidential or sensitive information is entitled to restrict access to the Head of IA alone).
- Have an enterprise-wide remit and mandate which includes assessing the adequacy and effectiveness of the Risk Management, Compliance, and Finance functions.
- Have the right to attend and observe any executive committee meetings or other management decision-making fora.
- Have full and free access to the AC and its Chairman.
- Although it is not the role of Internal Audit to second guess the decisions made by the Board, its scope should include information presented to the Board.
- Allocate resources, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of Group colleagues in the execution of IA activities.

#### **Periodic assessment**

The Head of IA is responsible for periodically providing to the AC a self-assessment of IA with regards to its consistency with this Charter.

The Head of IA is also responsible for providing the AC with an independent external assessment of IA's quality and effectiveness at least every five years.

**Approved by the Audit Committee on 21 July 2016**