

Internal Audit Charter

January 2025

Approved by Board Audit Committee 10.12.2024

Nottingham Building Society is a member of the Building Societies Association (BSA). Authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA for mortgages, savings and mortgage protection, etc. The Internal Audit Charter is a statement of the purpose, position, authority and responsibility of Internal Audit at the Nottingham Building Society, consistent with the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors inc. (IIA).



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Building Society

Contents

01

Purpose & Scope of Internal Audit

02

Objectives & Responsibilities

03

Authority & Reporting

04

Independence & Objectivity

05

Quality Assurance

01

Purpose & Scope of Internal Audit

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Purpose of Internal Audit

The Internal Audit Vision* is to be a respected business partner and trusted advisor that provides valuable and insightful independent assurance while promoting a strong risk culture, accountability and good governance across the Society.

The Purpose of Nottingham Building Society's Internal Audit department is to:

- ❑ Evaluate whether the nature and extent of business risks are being managed effectively within the context of business objectives. A system of internal controls is one of the primary means of managing risk.
- ❑ The system of internal control comprises the policies, procedures and practices, as well as the organisational culture that collectively support the Society's effective operation of the pursuit of its objectives. This system of internal control enables the Society to respond to significant business risks, including operational and financial risk.
- ❑ Internal Audit provides independent and objective opinions to the Board and Board Audit Committee on the adequacy and effectiveness of the systems of internal control by providing risk-based and objective assurance, advice and insight. These opinions will specifically cover whether the Society's risk management, control and governance processes are appropriately designed and operating effectively.
- ❑ On occasion Internal Audit may be requested to perform investigations or special assignments as directed by the Board or senior management.

The scope of Internal Audit covers all activities of the Society, and the scope of audit activity undertaken is determined by the IA Plan which is approved by the Board Audit Committee. The plan is developed using a risk-based approach so that assurance is focussed on whether the key risks facing the Society are adequately controlled. Through its activities IA will provide management with information to help facilitate improvement in the Society's risk management and controls.

In accordance with the Internal Audit Plan, Internal Audit assessments undertake a programme of reviews of key functional areas, processes, and systems to ensure that material risks are identified and managed. These will include, but will not be limited to, reviews of:

- ☐ the design and operating effectiveness of the internal governance structures and processes of the Society;
- ☐ the setting of, and adherence to, risk appetite;
- ☐ the risk and control culture of the Society;
- ☐ risks of poor customer outcomes and/or service giving rise to conduct or reputational risk;
- ☐ Capital, liquidity and other financial risks;
- ☐ whether risks relating to the achievement of Nottingham Building Society's strategic objectives are appropriately identified and managed.

02

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Objectives & Responsibilities



The objectives and responsibilities of the Internal Audit function, to support fulfilment of its stated purpose, are outlined below

Assessment of risk

Develop and implement a process, based upon Internal Audit's own view of the Society, to independently assess all risks faced by the business on a regular basis. The risk assessment process may take account of the risk assessment performed by management but should not be influenced by it. The risk assessment is updated on a regular basis to ensure that the resulting assurance activity addresses all key risks and may take account on areas such as: new or changing systems, business propositions, operations, and control processes. The ongoing results of the IA risk assessments are maintained in the Internal Audit Risk Universe.

Internal Audit Plan

- ❑ Prepare an annual Internal Audit Plan (IAP), setting out the timing and scope for Internal Audit assignments. The IAP shall be based on the independent risk assessment process, identifying business objectives and key risks to the achievement of those objectives, including any risks or control concerns identified by management;
- ❑ The IAP shall be reviewed and approved by the Board Audit Committee and communicated to the Board. The Board Audit Committee shall satisfy itself that the plan addresses controls covering all key business risks, on an appropriate frequency;
- ❑ Regularly review the IAP to ensure that it takes account of new emerging risks. Any changes to the plan shall be discussed with the Chair of the Board Audit Committee and will be communicated to that Committee;
- ❑ Internal Audit is responsible for planning, conducting, reporting and following up on audit assignments;
- ❑ Implement the IAP as approved by the Board Audit Committee. Audit fieldwork will be conducted in a professional, efficient and timely manner;

Review

- ❑ Review the adequacy of the design, implementation and operating effectiveness of controls established to manage the key risks identified and to ensure compliance with policies, plans, procedures and business objectives established by the Board;
- ❑ Contribute to the development of significant projects by reviewing the change framework and its application, and assessing whether appropriate controls are incorporated;
- ❑ Assess the effectiveness of business processes, systems and operations and determine if processes are an efficient use of resources.

Security

- ❑ Assess the safeguarding of assets, including intangible assets, and containment of liabilities;
- ❑ Evaluate information security and associated risk exposures;
- ❑ Evaluate organisation's readiness in case of business interruption.

Compliance

- ❑ Evaluate and provide reasonable assurance that risk management, control, and governance systems are functioning as intended and will enable the Society's objectives and goals to be met;
- ❑ Evaluate any regulatory compliance programmes;
- ❑ Assess compliance with policies, plans, procedures, laws and regulations, including corporate governance requirements.

Fraud

- ❑ Prepare Internal Audit Plan and design audit procedures with the objective of identifying any control weakness or deficiencies that, if not corrected, may give rise to a material risk of fraud and error;
- ❑ Assist in the investigation of significant suspected fraudulent activities within the organisation and notifying management and the BAC of the results.

People

- ❑ Maintain a professional audit staff with sufficient knowledge, skills, experience and professional certifications to meet the requirements of this Charter by engaging in continuous education and staff development;
- ❑ Team with other internal and external resources as appropriate.

Addition topics

- ❑ In fulfillment of IA objectives and responsibilities this may include periodic testing of transactions, comparisons against industry practice, special investigations, appraisals of regulatory requirements, and measures to help prevent and detect fraud. Internal Audit will support line managers in determining measures to remedy deficiencies in risk management and systems of control.
- ❑ As the request of the BAC, specific studies, tasks, ad hoc appraisals, investigations, reviews or projects requested may be carried out, subject to the agreement of appropriate additional engagement terms. In these cases, appropriate safeguards must ensure Internal Audit independence.
- ❑ Internal Audit may also perform retrospective or 'lessons learned' reviews following any significant adverse events within the business. Where performed, such reviews will consider the role of the both the first and second lines of defense within the business, as well as Internal Audit's own role.
- ❑ The Board Audit Committee is responsible for assessing the effectiveness of Internal Audit on an annual basis and in assisting to ensure that Internal Audit is afforded a sufficiently high standing within the organisation, necessary to achieve that effectiveness.
- ❑ Internal Audit will have no direct responsibility or authority for any of the activities or operations they review. Internal Audit shall not develop or install procedures, prepare records or engage in activities that would likely be reviewed by Internal Audit. Furthermore, an internal audit does not in any way relieve other persons in the organisation or delegated parties/service providers of the responsibilities assigned to them.

03

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Authority & Reporting



Internal Audit is established by, and its authority and responsibilities are defined by the Board Audit Committee, a sub-committee to the Board of Directors. Internal Audit will comply with the requirements of both the IIA Global Internal Audit Standards and the IIA FS Code and will report its compliance position on an annual basis to BAC.

Authority

- ❑ The Chief Internal Audit Officer (CIAO) will report functionally to the Chair of the BAC and administratively i.e. day-to-day operations, to the Chief Executive Officer (CEO).
- ❑ To establish, maintain and assure that the Society's Internal Audit function has sufficient authority to fulfil its duties, the BAC will approve the Internal Audit Charter; the dynamic risk-based Internal Audit Plan; and Internal Audit's Budget and Resource Plan.
- ❑ BAC will receive communications for the CIAO on the Internal Audit Department's performance in relation to its Plan and other matters; decisions regarding the appointment and removal of the CIAO; the remuneration of the CIAO; and make appropriate inquiries of management and the CIAO to determine whether there is appropriate scope of audit activity and adequately skilled resource.

Access

- ❑ Internal Audit is granted by BAC full, free and unrestricted access to any and all records, information, physical properties and personnel relevant to any function or area within the business (including where such information is held by third parties). Internal Audit will ensure confidentiality is maintained in respect of all information and records obtained in the course of performing its duties.
- ❑ The CIAO will have unfettered access on a one-to-one basis to communicate and interact directly with all colleagues and Members of the Board, including in private meetings without management present.
- ❑ All colleagues must co-operate fully with and support Internal Audit so that deadlines for completing Internal Audit work and issuance of Internal Audit reports to the BAC are met.

Reporting and communication

A draft audit report will be prepared at the conclusion of each audit and facts will be agreed with senior management. Management responses to findings and action plans will be agreed, including deadlines and identification of those responsible for implementation. Copies of all Audit Reports will be provided to the Chief Executive and the Chief Risk Officer in addition to the Accountable Executive for each audit and those members of management to whom respective actions have been assigned, with summary reports presented to all members of the BAC. Management is responsible for the closure of Internal Audit findings and for monitoring the timely completion of actions to address these findings. Internal Audit is responsible for the formal acceptance on a periodic basis of the closure of Internal Audit findings, subject to validation of the evidence provided by management in support of action closure.

Additionally, Internal Audit will:

- ☐ Report to the BAC on a periodic basis regarding progress against the Internal Audit Plan and to present the results of Internal Audit work performed. Internal Audit will issue quarterly reports to the BAC summarising results of audit activities;
- ☐ Maintain open communication and inform the BAC and Management of emerging trends and best practices in internal auditing;
- ☐ Liaise on an ongoing basis with the compliance function, external audit and other parties as appropriate to ensure proper coverage and avoid unnecessary duplication of effort;
- ☐ Track audit actions to resolution and report progress to the BAC;
- ☐ Report risk management issues and internal controls deficiencies identified directly to the BAC and provide recommendations for improving the organisation's operations, in terms of both efficient and effective performance.

Internal Audit will provide an annual conclusion to the BAC on:

- ☐ The risk management, governance and control framework in place with the organisation;
- ☐ The consistency of application of the risk governance framework within the organisation during the year;
- ☐ The independence and objectivity of the Internal Audit function, as well as the adequacy of resourcing from a headcount and skillset perspective.

04

Independence & Objectivity

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Internal Audit is independent from the business and is directly responsible to the Chair of the Board Audit Committee with a day-to-day administrative reporting line to the Chief Executive Officer. Internal Audit shall have free and unrestricted access to the Chair of the Board, the Chair of the Board Audit Committee and the Chief Executive Officer.

Those working within Internal Audit must avoid conflicts of interest and are not permitted to perform day-to-day control procedures or take operational responsibility for any part of business operations outside Internal Audit. Management is responsible for the establishment and ongoing operation of the internal control system.

The Board Audit Committee will review the scope and nature of the work performed by Internal Audit to confirm its independence. Any impairments to independence of the Internal Audit function are required to be reported to the Board Audit Committee.

Code of Ethics

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 Society, 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 judgement;
- ☐ Be prudent in the use of information acquired in the course of their duties and not use confidential information for any personal gain in a manner be detrimental to the welfare of the Society;
- ☐ 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;
- ☐ Engage only in those projects which they have the necessary knowledge, skill and experience.

Relationship with other Assurance Functions and Regulators

Internal Audit will exercise informed judgement to determine how much reliance can be placed on the work of other assurance functions and providers and will thoroughly evaluate the effectiveness of any other assurance provider before placing reliance on their assessments and conclusions.

The external auditors fulfil a statutory duty. Effective collaboration between internal audit and the external auditors is imperative to ensure effective and efficient audit coverage and resolution of issues of mutual concern. Internal Audit will incorporate internal control issues raised by the external auditors into the IA action management process to ensure that these issues are addressed. Internal and external auditors meet annually, upon request from management or external audit to:

- ☐ Plan the respective internal and external audits;
- ☐ Discuss potential issues arising;
- ☐ Provide effective audit coverage to the organisation at reasonable cost.

Internal Audit will establish and maintain a close continuous relationship with applicable regulatory authorities, as deemed necessary and appropriate.

Internal Audit undertake to meet the following service levels:

- ☐ Prior to commencing an audit, we will have a discussion with the member of senior management responsible for the business area to assess the audit scope and any issues that management are aware of. We will give at least two weeks' notice before commencing our work.
- ☐ We will notify management immediately of any significant concerns arising from our work.
- ☐ We will agree the accuracy of the points raised, initially with the management and then formally at the close meeting prior to the issue of draft report.
- ☐ We will hold a close meeting at the end of our audit fieldwork.
- ☐ We will issue a draft report within a timescale agreed with audit stakeholders following the close meeting, subject to ensuring that Board Audit Committee reporting deadlines are met.
- ☐ Following the issuance of a draft report, management actions will be proposed by management and agreed by Internal Audit within two working weeks (subject to the timing of any internal Board or Board sub-committee meetings where necessary to agree those responses).
- ☐ We will issue the final report within further working week of agreeing final management actions.
- ☐ All final audit reports will be issued in accordance with management's internal timetable for the finalisation of papers before each Board Audit Committee meeting.

05

Quality Assurance

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Internal Audit strives to deliver high quality assurance and insight to the Board Audit Committee and management at all times.

The Quality of Internal Audit reporting is assured through:

- ❑ The involvement of specialists in delivery of relevant areas of the Internal Audit Plan.
- ❑ The application of a robust review process prior to the issue of any Internal Audit reports or conclusions
- ❑ The use of external quality checks on an ad hoc basis to gain assurance over audit quality and adherence to methodology
- ❑ The performance of an independent External Quality Assessment (EQA) once every five years, the results of which and an action plan to address any issues identified are shared with the Board Audit Committee.
- ❑ The CIAO will communicate with Senior Management and the BAC on quality assurance and improvement activities, including results of any internal assessments (both ongoing and periodic) and the EQA.

Internal Audit aim to continuously improve methodology, procedures, technologies and quality. This is achieved through regular review of industry developments and emerging audit technologies, as well as the application of 'lessons learnt' from recent Internal Audit delivery, including the outcome of the independent External Quality Assessment process outlined above.

06

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Appendices

The key changes following the annual review of the Internal Audit Charter are as follows:

1. Updated Charter format to make it easier to read and align to the Society's new branding.
2. More specific Mission & Purpose section with **risk-based** focus and included **IA Code of Ethics and Service Standards**.
3. Reference to the new **Internal Audit Vision and Strategy** aligned to the function's purpose.
4. The Charter is explicit that - *"The scope of Internal Audit covers all activities of the Society, and the scope of audit activity undertaken is determined by the IA Plan which is approved by the Board Audit Committee."*
5. Responsibilities of the function explicitly consider – Security, Compliance, Fraud, People.
6. NEW - *"Internal Audit may also perform retrospective or 'lessons learned' reviews following any significant adverse events within the business."*
7. NEW – *"The Board Audit Committee is responsible for assessing the effectiveness of Internal Audit on an annual basis and in assisting to ensure that Internal Audit is afforded a sufficiently high standing within the organisation, necessary to achieve that effectiveness."*
8. NEW - *"Furthermore, an internal audit does not in any way relieve other persons in the organisation or delegated parties/service providers of the responsibilities assigned to them. "*