

Compliance Monitoring Charter



Introduction

This charter formally defines Compliance Monitoring's purpose, authority and responsibility. Final approval of the charter rests with the Chief Conduct Risk Officer.

Role of Compliance Monitoring

The Compliance Monitoring Department is a function designed to provide independent assurance and add value to the Group by objectively reviewing and reporting on the adequacy and effectiveness of compliance controls (relating to FCA Conduct Risk regulation) operated by Management to deliver fair customer outcomes.

Independence and objectivity

In order for Compliance Monitoring to fulfil its objectives it is essential that all colleagues are independent of the activities they review and that their work is carried out freely and objectively. Independence permits the provision of impartial and unbiased judgements essential to the proper conduct of reviews.

All Compliance Monitoring colleagues will have the right of access to any document or record, etc., belonging to the Group or held on the Group's premises relevant to the particular review being undertaken. All such information will be treated as confidential.

All Compliance Monitoring colleagues will be required to disclose any connection with the Group that may impair their independence or objectivity. In the unlikely event of impairment to the Compliance Monitoring team's independence or objectivity, adequate controls will be put in place to mitigate the conflict e.g. the conflicted individual will not be involved in reviewing the area with which they have the connection.

All Compliance Monitoring colleagues will approach their work with professionalism and must apply and uphold the following principles:

- Integrity
- Objectivity
- Confidentiality
- Competency

Compliance Monitoring will advise on improvements as well as ongoing assurance on relevant systems and controls. Colleagues within Compliance Monitoring will not assume responsibility for the design, installation, operation or control of any procedures. Leaders of operational areas remain responsible for such controls including their Compliance functions (subsidiary company second line of defence) with support where relevant from the SBS Compliance Policy team.

Compliance Monitoring colleagues who have transferred from other areas of the Group will not be asked to review any aspects of their previous area's work which they have had any involvement in and could, therefore, be considered conflicted until at least one year has passed since they left that area.

Scope

The scope of Compliance Monitoring work is focused on key controls mitigating current and evolving FCA compliance risks to the Group.

The work of Compliance Monitoring will include, but is not restricted to, the following areas:

- Reviewing the effectiveness of FCA compliance systems and controls established by leaders to ensure they meet expected regulatory standards;
- Performing customer outcome testing in core FCA regulatory areas with the main focus on ensuring the delivery of fair customer outcomes by the Group and providing an opinion on the monitoring work performed by the first line of defence (including Connells second line of defence);
- Performing Thematic reviews of key areas of regulatory focus relating to Conduct Risk, for example, risk profiling.
- Periodically performing (risk based) reviews of FCA regulated Group firms' Compliance functions (Core Compliance reviews) to provide assurance over their effectiveness;
- Conducting special reviews as directed by the Chief Conduct Risk Officer; and
- Quarterly follow up of outstanding management action points, including a level of revalidation taking a risk based approach.

Compliance Monitoring may contract with a third party to undertake review work as required to meet annual Compliance Monitoring Plan delivery needs. Where a third party is used, appropriate procedures will be adopted to ensure the independence, objectivity and capability of the third party.

Continued overleaf

Responsibilities

The responsibilities of Compliance Monitoring include:

- Developing an annual risk based Compliance Monitoring plan (the Plan) and budget for the approval of the Executive Committee (Budget) and the Board Audit Committee (Plan only).
- Delivering the Plan and reporting significant findings to Executive Management, the Board Audit Committee, the Board Risk Committee and the Board.
- Challenging management on action plans to mitigate emerging risks.
- Performing verification of the actions taken by Management in response to issues included in monitoring reports.
- Monitoring the level of outstanding findings arising from Monitoring reports.
- Reporting to the Board, Board Committees and Executive Management.
- Undertaking special investigations/one off pieces of consulting work as required by the business.

Advisory work to help management develop an effective (FCA compliant) control framework is expected to be performed by Compliance Policy. Any such work conducted by Compliance Monitoring is expected to be minimal and will be assessed to ensure it will not compromise independence and objectivity.

To deliver this, the Head of Compliance Monitoring is responsible for:

- Assessing the resources and skills required within the department.
- Recruiting and maintaining a team with the right skills, knowledge and experience to challenge management and deliver the Plan (supported by a Training and Competence framework).
- Providing an internal quality assurance framework to evaluate the performance of the department. In addition, the work of Compliance Monitoring is subject to review by Internal Audit.

Approach

Compliance Monitoring annual planning, reviews and management action validation are performed in line with agreed methodologies.

The Annual Planning Methodology includes an assessment of key regulatory documentation e.g. FCA Risk Outlook and Business Plan, speeches, consultation papers, finalised guidance; Key Risk Profiles (at a firm and department level); Board and Committee packs and engagement with stakeholders. The Annual Plan, is risk based. It, therefore, focuses on areas which present a greater risk to customers and ensures that resources are deployed to good effect from the perspective of both the Skipton Group and its customers. The Annual Plan is subject to a formal quarterly review to ensure that it remains appropriately risk focussed.

The methodology for performing Compliance Monitoring reviews (Thematic, Customer Outcome Testing and Core Compliance) includes: notification and engagement of key stakeholders, research, production of a testing plan focussed on customer outcomes and compliance with FCA regulation, sampling, fieldwork, quality assurance, feedback and reporting.

The revalidation of management actions procedure is risk based. For High and Extreme actions the procedure requires both validation at the time the action is notified as being closed and then completion of a follow up review within 12 months from the time of the validation. Management actions are tracked on a quarterly basis.

Reporting

Compliance Monitoring colleagues report on a day to day basis to the Head of Compliance Monitoring, who in turn reports directly to the Chief Conduct Risk Officer.

A close working relationship will be maintained between Compliance Monitoring and Internal Audit with a view to maximising the efficiency and effectiveness of the overall assurance framework. This will include, but not be limited to, liaising at both annual planning and review planning stage.

Compliance Monitoring reports will be produced and distributed to an agreed distribution list which is set out clearly in the Compliance Monitoring Methodology and on the report. The report will include the review findings and recommendations along with agreed management actions. Each review finding will be rated (ranging from Extreme to Low) and an overall rating attributed to the review (A-D). The reports will not be copied or circulated outside of the Group except to its regulator(s) and the external auditors without Compliance Monitoring agreement.

Compliance Monitoring reports to the Executive Committee and Board Audit Committee on progress against the Plan and budget, details of significant Compliance Monitoring reports, the level of progress of overdue findings from reviews and performance against service standards. Compliance Monitoring also provides update reports into the Board, Board Risk Committee, Conduct and Operational Risk Group and Subsidiary Limited Boards.

Competency

Compliance Monitoring colleagues will be required to study for qualifications with recognised professional bodies; these include the Chartered Insurance Institute (CII) and the London Institute of Banking and Finance (LIBF).

Compliance Monitoring colleagues will be expected to continue to enhance their knowledge, skills and other competencies through continuing professional development.

For the CII: <https://www.cii.co.uk/>

For the LIBF: <https://www.libf.ac.uk>

Approval

This Compliance Monitoring Charter shall be reviewed by the Head of Compliance Monitoring and presented to the Chief Conduct Risk Officer (for approval) and the Board Audit Committee (for note) on, at least, an annual basis.

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