

Introduction

This Charter formally defines Group Internal Audit's (GIA's) purpose, authority and responsibility. Final approval of the Charter rests with the Board Audit Committee on behalf of the Board.

Purpose of Group Internal Audit

The purpose of GIA is to help the Board and Management to protect the assets, reputation and sustainability of the Skipton Building Society group of companies (the Group). This is in line with the Institute of Internal Auditors' (IIA's) definition of the purpose of internal auditing: 'Internal auditing strengthens the organisation's ability to create, protect, and sustain value by providing the Board and Management with independent, risk-based, and objective assurance, advice, insight, and foresight'.

To fulfil its purpose, GIA will:

- Assess whether significant risks have been identified and reported appropriately to the Board and Executive Management;
- Provide a view of the design and operation of key controls to determine whether they are effective in mitigating risk;
- Support Management to improve the effectiveness of governance, risk management and internal control; and
- Support Management in helping to identify opportunities to improve business performance.

GIA operates as the Third Line of Defence in the Group's Three Lines of Defence risk management framework. GIA works closely with the Group's Compliance and Risk functions to discuss risks and identify potential areas of focus. GIA has also adopted agile ways of working to respond with a risk-based approach to the dynamic risk environment that the Group operates within.

Audit Practice Standards

GIA adheres to the mandatory elements of the IIA's International Professional Practices Framework (IPPF), including the Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics and the International Standards. GIA also operates in accordance with the Chartered IIA (UK & Ireland) Guidance on Effective Internal Audit in the Financial Services Sector. In addition, GIA adheres to the Society's relevant policies and procedures and the Internal Audit Procedures Manual.

Authority

GIA derives its authority from the Board, through the Board Audit Committee. GIA has unrestricted access to all Group records, physical properties, and personnel as required for the effective delivery of audit activity. GIA has free and unrestricted access to the Board and Board records. The only exception to this is access to the Private Minute Book. These records are available to the Group Chief Internal Auditor. The right of access extends to organisations that carry out outsourced functions on behalf of the Group. GIA has strict accountability for confidentiality and safeguarding records and information.

Organisation

GIA colleagues report to the Group Chief Internal Auditor, who in turn reports directly to the Chair of the Board Audit Committee, and to the Group Chief Executive (for administrative matters only). The Group Chief Internal Auditor has regular meetings with the Chair of the Board Audit Committee and the Group Chief Executive and has no operational responsibilities outside Audit. The only exception being that the Group Chief Internal Auditor is a nominated recipient for whistle-blowing reports. The Group Chief Internal

Auditor communicates and interacts directly with the Board Audit Committee, including in executive sessions and between Board Audit Committee meetings as appropriate.

The Chairman of the Board Audit Committee, having consulted with Board Audit Committee, approves all decisions regarding the performance evaluation, appointment, or removal of the Group Chief Internal Auditor as well as the Group Chief Internal Auditor's annual compensation and salary adjustment. Where the tenure of the Group Chief Internal Auditor exceeds seven years, the Audit Committee should explicitly discuss annually the Chair's assessment of the Group Chief Internal Auditor's independence and objectivity.

Independence and Objectivity

GIA, under the governance of the Board Audit Committee, 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.

GIA colleagues will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment. GIA colleagues who have transferred into GIA from other areas of the Group will not provide internal audit services in relation to business activity for which they have had responsibility within the previous twelve months.

Any variation to the responsibilities set out in this Charter will be subject to approval by the Group Chief Internal Auditor and Chair of the Board Audit Committee.

GIA colleagues must exhibit the highest level of professional objectivity and confidentiality in gathering, evaluating, and communicating information about the activity or process being examined. GIA colleagues must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments. GIA colleagues must conduct their work with proficiency and due professional care.

On an annual basis (or on commencement of employment) GIA colleagues are requested to complete an Independence and Objectivity disclosure. Any declared conflicts are considered and managed appropriately. The Group Chief Internal Auditor will confirm to the Board Audit Committee, at least annually, the organisational independence of the internal audit activity. Where GIA attends steering committees or working groups to provide input on risk management and control, GIA will satisfy itself that no conflict arises between GIA's attendance and role as independent assurance provider.

Any advisory / consultancy work to help Management develop an effective control framework is expected to be a small proportion of GIA's work. Any such work conducted will be assessed to ensure it will not compromise GIA's independence and objectivity and where necessary, appropriate safeguards implemented to mitigate risks. Board Audit Committee approval will be sought prior to commencement of any advisory consultancy work.

GIA may outsource or co-source certain audits due to resourcing constraints or to provide specialist expertise, including benchmarking against similar organisations. 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 to be reviewed.

Competency

Internal Auditors will only engage in those services for which they have the necessary knowledge, skills and experience or are adequately supported by those who have the required skills. The allocation of resource is closely managed by the GIA Senior Management team and a skills matrix is used to support this activity.

Scope

The scope of GIA's work is unrestricted and includes:

- All aspects of the First and Second Lines of Defence;
- Internal governance (including strategic and operational decision making, promoting appropriate ethics and values);
- The Information presented to the Board for strategic decision-making;
- The setting of, and adherence to, risk appetite;
- The risk and control culture;
- Reviewing the effectiveness of the Group's management of conduct risk, in particular the risk of poor customer outcomes;
- Reviewing mandatory compliance certificates and Management attestations as required;
- Responding to regulator requests, including those in relation to review of remediation actions;
- Capital, liquidity and other prudential regulatory risks;
- Key corporate events;
- Key events, including significant process changes, introduction of new products and services; and
- Material outsourcing / insourcing decisions and acquisitions / divestments.

GIA may place a degree of reliance on the work of other assurance providers but only after a thorough evaluation of their effectiveness.

To this end, GIA will assess the design, operating effectiveness and efficiency of the Group's policies and processes, and whether the outcomes achieved through the implementation of these policies and processes are in line with the Group's strategic objectives, risk appetite and values. This will include assessing whether the culture of risk management and control, and governance structures, are functioning as intended, with the aim that:

- Business strategy, programmes, plans and objectives are achieved;
- Significant risks are appropriately identified, managed and reported to the Board and Executive Management;
- Employees and contracted third parties comply with policies, standards and procedures;
- Financial, management and operating information is fair, balanced, reasonable and presented to relevant stakeholders on a timely basis;
- Assets are valued appropriately and protected from loss, theft or fraud; and
- All regulatory and legislative requirements are recognised and complied with.

Responsibilities

The responsibilities of GIA include:

- Developing an annual risk-based audit plan (the Plan) on a six-monthly basis and budget for approval by the Board Audit Committee. The Plan shows a firm view for the following six months and an indication of potential audits for the subsequent six months;
- Delivering the Plan and reporting significant findings to Executive Management, the Board Audit Committee, the Board Risk Committee and the Board;
- Providing periodic opinions on the overall effectiveness of the governance and risk and control framework across the Group;
- Providing assurance on key business projects (based on their risk and significance to the Group);
- Challenging Management on emerging risks and highlighting themes and trends from Internal Audit work;
- Performing verification of the actions taken by Management in response to issues included in audit reports;
- Monitoring the level of outstanding findings arising from audit reports; and
- Issuing periodic reports to the Board Audit Committee and Executive Management covering a range of requirements, including progress against the Plan, details of significant audit reports, and the level and progress of overdue findings arising from audit reports.

To deliver this, the Group Chief Internal Auditor's responsibilities include:

- Setting the strategy for GIA and driving actions to deliver the strategy;
- Assessing the resources and skills required within GIA;
- Recruiting and maintaining a team with the right skills, knowledge and experience to challenge Management and deliver the Plan;
- Establishing a quality assurance and improvement function to evaluate the performance of Internal Audit on a regular basis; and
- Delivering the Plan within agreed budget or obtaining approval from the Board Audit Committee for any costs outside of budget.

The Group Chief Internal Auditor, and other senior managers within GIA should have an open, constructive and co-operative relationship with regulators and all stakeholders, which supports sharing of information relevant to carrying out their respective responsibilities.

Quality Assurance and Improvement Programme

GIA will maintain a quality assurance and improvement programme that will cover all aspects of GIA's activity, including conformance with the IIA Standards. On an annual basis, the Group Chief Internal Auditor will communicate the results of the quality assurance and improvement programme to Board Audit Committee and Executive Management.

The Board Audit Committee will also commission an independent external assessment of GIA, in line with the IIA Standards, at least once every five years.



Call 0345 850 1700



Go to [skipton.co.uk](https://www.skipton.co.uk)



Visit us in branch