

Internal Audit Charter



Introduction

This charter formally defines Internal Audit's purpose, authority and responsibility. Final approval of the charter rests with the Board Audit Committee on behalf of the Board.

Role of Audit

The primary role of Internal Audit 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 Chartered Institute of Internal Auditors' (CIIA) Mission Statement 'To enhance and protect organisational value by providing risk based and objective assurance, advice and insight'.

Internal Audit 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.

Internal Audit's over-arching vision statement is 'Working together to build a stronger Society'.

Independence and Objectivity

Internal Audit and all Internal Audit colleagues will comply with the Institute of Internal Auditors' (IIA) mandatory guidance, including the Definition of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing and the IIA Guidance on Effective Internal Audit in the Financial Services Sector.

The IIA's Practice Advisories, Practice Guides, and Position Papers are also adhered to as applicable to guide operations. In addition, Internal Audit adheres to the Society's relevant policies and procedures and the Internal Audit Procedures Manual.

Internal Audit, 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.

Internal Audit 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. Internal Audit colleagues who have transferred into Internal Audit 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.

Internal Audit colleagues must exhibit the highest level of professional objectivity and confidentiality in gathering, evaluating, and communicating information about the activity or process being examined. Internal Audit 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. Internal Audit colleagues must conduct their work with

proficiency and due professional care.

The Chief Internal Auditor will confirm to the Board Audit Committee, at least annually, the organisational independence of the internal audit activity.

Internal Audit may outsource or co-source certain audits due to resourcing constraints or to provide specialised expertise. 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.

Authority

Internal Audit has strict accountability for confidentiality and safeguarding records and information. All Internal Audit colleagues have unrestricted access to all Group's records, physical properties, and personnel as required for the effective delivery of audit activity. Internal Audit 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 Chief Internal Auditor.

Organisation

Internal Audit colleagues report to the 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 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 Chief Internal Auditor is a nominated recipient for whistle-blowing reports. The 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 Board Audit Committee approves all decisions regarding the performance evaluation, appointment, or removal of the Chief Internal Auditor as well as the Chief Internal Auditor's annual compensation and salary adjustment.

Scope

Internal Audit operates as the third line of defence in the Group's three lines of defence risk management framework.

The scope of Internal Audit's work is unrestricted and includes:

- Internal governance
- The Information presented to the Board for strategic decision making
- The setting of, and adherence to, risk appetite
- The risk and control culture
- Risks of poor customer outcomes
- Capital, liquidity and other prudential regulatory risks, and
- Key corporate events.

To this end, Internal Audit will assess the design and operating effectiveness 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 Internal Audit include:

- Developing an annual risk based audit plan (the Plan) and budget for the approval of the Board Audit Committee
- 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 and budget, details of significant audit reports, and the level and progress of overdue findings arising from audit reports.

Any advisory work to help management develop an effective control framework is expected to be a small proportion of Internal Audit's work. Any such work conducted will be assessed to ensure it will not compromise Internal Audit's independence and objectivity. To deliver this, the Chief Internal Auditor's responsibilities include:

- Assessing the resources and skills required within Internal Audit
- Recruiting and maintaining a team with the right skills, knowledge and experience to challenge management and deliver the Plan
- Providing a quality assurance function to evaluate the performance of Internal Audit on a regular basis
- Delivering the Plan within agreed Budget, or obtaining approval from the Board Audit Committee for any costs outside of Budget.

Periodic assessment

The Chief Internal Auditor will self assess conformance with the IIA Standards, and report the findings of the assessment on an annual basis to the Board Audit Committee. The Board Audit Committee will commission an independent external assessment of Internal Audit in line with the IIA Standards at least once every five years.

