

Internal Audit Charter

A statement of the purpose, position, authority and responsibility of Internal Audit at The Nottingham, consistent with the International Professional Practices Framework of the Institute of Internal Auditors inc.



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1. Purpose of Internal Audit

- 1.1. Internal Audit helps to enhance and protect the assets, reputation and sustainability of The Nottingham. It does this by being an independent voice, providing independent risk-based and objective assurance, advice and insight to support our people to do the right thing to manage the risks to achieving The Nottingham's business strategies and objectives.
- 1.2. Internal Audit brings a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

2. Authority of Internal Audit

- 2.1. Internal Audit has free and unrestricted access to any of The Nottingham's information, physical properties and people to meet its responsibilities.
- 2.2. All The Nottingham's people must co-operate fully with Internal Audit and support Internal Audit so that deadlines for completing audit work and issuing audit reports to the Board Audit Committee are met.
- 2.3. The Head of Internal Audit has free and unrestricted access to Board members and to all governance committee meetings including (with the prior agreement of the Chair of the Board Audit Committee) Board meetings.
- 2.4. Internal Audit will maintain confidentiality at all times and Internal Audit team members are personally accountable for safeguarding and using appropriately any information to which they are given access. In the case of sensitive information, the Head of Internal Audit will agree acceptable arrangements for access with key stakeholders.

3. Position of Internal Audit

- 3.1. The Nottingham operates the "three lines of defence" governance model, with risk owners as the first line, oversight functions such as Compliance and Risk as the second line and Internal Audit as the third line.
- 3.2. Internal Audit is entirely independent of the first and second lines of defence and so will not take part in management decision-making, although advice and guidance may be given to support good decision-making.
- 3.3. Internal Audit's independence is assured by:
 - oversight of Internal Audit being the responsibility of the Board Audit Committee, which solely comprises Non-Executive Directors
 - the Head of Internal Audit's functional reporting line to the Chair of the Board Audit Committee, with a secondary reporting line from the Head of Internal Audit to the Chief Executive for administrative purposes only
 - approval by the Chair of the Board Audit Committee the annual performance objectives of the Head of Internal Audit, the Internal Audit budget (including the remuneration of the Head of Internal Audit) and the performance assessment of the Head of Internal Audit
 - approval of the appointment and removal of the Head of Internal Audit and assessment of the ongoing competence of the appointed individual by the Chair of the Board Audit Committee
 - Internal Audit's freedom from any interference in determining the scope of internal auditing, performing work and communicating results.

- Internal Audit having no operational responsibility or authority over any of the activities audited
 - the performance of an Internal Audit not relieving any other person within the Society of their responsibilities.
- 3.4. The Head of Internal Audit has free and unrestricted access to the Chair of the Board, the Chair of the Board Audit Committee and the Chief Executive. The Head of Internal Audit will also meet with the Board Audit Committee in the absence of Executive Directors and Management at least twice per year.
- 3.5. The Head of Internal Audit will confirm at least annually to the Board Audit Committee the organisational independence of Internal Audit.

4. Responsibilities of Internal Audit

- 4.1. Internal Audit will exhibit a high level of professional objectivity in its audit work. Internal auditors must make a balanced assessment of all relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments. Internal Auditors have a responsibility to conduct themselves so that their integrity, objectivity, confidentiality and competency are not open to question.
- 4.2. Standards of professional behaviour are based upon the International Professional Practices Framework of the Institute of Internal Auditors inc. (“IIA”), comprising the Code of Ethics, the Definition of Internal Auditing and the International Standards for the Professional Practice of Internal Auditing (the Standards). In addition, Internal Audit will adhere to the UK’s Chartered Institute of Internal Auditors (“CIIA”) recommendations on “Effective Internal Audit in the Financial Services sector”.
- 4.3. Where there is any non-conformance with the Code of Ethics or the Standards, the HIA will discuss the reason for the non-conformance and its nature and any impact with the Chair of the Board Audit Committee in the first instance to agree appropriate steps.
- 4.4. The Head of Internal Audit will meet with all Executive Committee members and other senior managers at least monthly. The purpose of these meetings is to:
- ensure that Internal Audit is aware of and understands business developments and can take account of these in audit planning and prioritisation
 - share feedback on the effectiveness of partnership working between the business and Internal Audit to ensure that the function is delivering the assurance and support required and in turn is receiving the co-operation and support it needs from management.
- 4.5. The External Auditors fulfil a statutory duty and effective collaboration between Internal Audit and External Audit is imperative to ensure effective and efficient audit coverage and discuss issues of mutual interest. Internal and External Audit will meet at least annually to:
- discuss the respective Internal and External Audit plans
 - discuss potential issues arising
 - provide cost-effective audit coverage to the organisation.

- 4.6. The Head of Internal Audit will meet with the Society's regulators, on request from either party, to discuss any aspect of Internal Audit work or findings. Unless the matters discussed relate to whistleblowing or suspicions of fraud by Executive Directors, the relevant Executive Director and senior management will be made aware of both the occurrence of the meeting in advance and the matters discussed.
- 4.7. If requested to perform specific assurance work by any regulatory body, Internal Audit will ensure that the Internal Audit Plan is re-arranged to accommodate the request.
- 4.8. Internal Audit is committed to working with other assurance providers (Risk, Compliance and External Audit) to deliver a combined assurance approach aligned with the "three lines of defence" governance model. Internal Audit will not, however, allow areas of the Internal Audit Plan to be removed, deferred or reduced in scope due to assurance provided by others. Where Internal Audit wishes to take account of the work of another assurance provider it will assess the independence, competence and experience of those performing the work and if appropriate re-perform, on a sample basis, the work performed by that other assurance provider.

5. Board Audit Committee oversight of Internal Audit

- 5.1. 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, as necessary to achieve that effectiveness.
- 5.2. The Committee's Terms of Reference include a responsibility "... to conduct an annual review of the effectiveness of the internal audit department in the overall context of the Society's risk management framework, including consideration of the independence of internal audit." This annual review is a key element of Internal Audit's Quality & Improvement Programme and the results of the review feed directly into the programme. The Group Secretary facilitates this review with the Board Audit Committee and its attendees.
- 5.3. The Head of Internal Audit and members of the team as appropriate, will maintain open communication with the Board Audit Committee throughout the year, usually via the Chair of the Board Audit Committee.
- 5.4. The Head of Internal Audit will produce a report to each Board Audit Committee meeting, presenting the results of audit work during the period, progress against and any changes required to the Internal Audit Plan, an opinion on the effectiveness of management's action plans for remediating audit findings and any other matters deemed relevant.
- 5.5. Annually the Head of Internal Audit's report will conclude on:
 - the overall effectiveness of the Society's governance, risk management and control frameworks
 - the independence and adequate resourcing of the Internal Audit function and the results of the function's Quality Assurance & Improvement Programme (QAIP).

- 5.6. At least every five years, the Standards require an external review of Internal Audit effectiveness. The Head of Internal Audit will obtain approval from the Board Audit Committee for the appointment of an appropriately qualified and experienced independent firm to undertake the review. The Head of Internal Audit will provide the results of the external review to the Board Audit Committee and agree any remedial action required.

6. Document control

Material changes to this Charter must be approved by the Board Audit Committee and the Charter is subject to annual Board Audit Committee review and approval.

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7. Document version history

Date	Author	Version	Notes
19/05/14	HIA	1	Complete re-write to reflect CIIA “Effective Internal Audit in the Financial Services sector” recommendations, issued July 2014.
29/05/14	HIA	2	Update of section 3.5 (Authority of Internal Audit) to reflect comments from Board Audit Committee Chair in relation to Committee meeting access.
16/05/16	HIA	2016.1.0. 1	Existing content transferred to the Documentation template.
21/11/16	HIA	2016.2	Periodic review and submission to December Board Audit Committee with minor formatting changes, updated role titles and removal of outdated procedural aspects.
19/12/17	HIA	2017.1	Annual review and confirmation at December BAC that no material changes required.
18/09/18	HIA	2018.1	Annual review and approval by BAC of updates relating to lists of governance committees and quality assurance elements, IPPF, BAC oversight and removal of “confidential” document classification.
18/09/18	HIA	2018.1.1	Additional update to remove itemisation of governance committees, reference new strapline and simplify wording (all non-material)