

# Internal Audit Charter

Version 2021.01

**September 2021**

Approved by BAC 28 September 2021  
Review Date: 20 September 2022

Nottingham Building Society (“The Nottingham”) is a member of the Building Societies Association. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority 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, consistent with the International Professional Practices Framework of the Institute of Internal Auditors inc.

### Purpose and Mission of Internal Audit

The purpose of The Nottingham’s Internal Audit Department is to provide independent, objective assurance and consulting services designed to add value and improve The Nottingham’s operations. The mission of Internal Audit is to enhance and protect organisational value by providing risk –based and objective assurance, advice and insight. The Internal Audit Department helps The Nottingham accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improved the effectiveness of governance, risk management and control processes.

### Standards for the Professional Practice of Internal Auditing

The Internal Audit Department will govern itself by adherence to the mandatory elements of the Institute of Internal Auditors’ International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practices of Internal Auditing and the Definition of Internal Auditing. The Head of Internal Audit will report periodically to senior management and the Board Audit Committee regarding the Internal Audit Department’s conformance to the code of Ethics and the standards.

### Authority

The Head of Internal Audit will report functionally to the Chair of the Board Audit Committee and administratively (i.e. day-to-day operations) to the Chief Executive. To establish, maintain and assure that The Nottingham’s Internal Audit Department has sufficient authority to fulfil its duties, the Board Audit Committee will approve the Internal Audit Charter; the Risk-Based Internal Audit Plan; the Internal Audit Department’s Budget and Resource Plan; receive communications for the Head of Internal Audit on the Internal Audit Department’s performance in relation to its Plan and other matters; decisions regarding the appointment and removal of the Head of Internal Audit; the remuneration of the Head of Internal Audit; and make appropriate inquiries of management and the Head of Internal Audit to determine whether there is appropriate scope and adequately skilled resource.

The Head of Internal Audit will have unfettered access on a one-to-one basis to communicate and interact directly with NBS employees and members of the Board, including in private meetings without management present.

The Board Audit Committee authorises the Internal Audit Department to have full, free and unrestricted access to all functions, records, property, personnel pertinent to carrying out any engagement and are subject to accountability for confidentiality and the safeguarding of records and information; allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish Internal Audit objectives and issue reports; and obtain assistance from the necessary personnel of The Nottingham, as well as other specialised services from within outside The Nottingham, in order to complete the engagement.

All The Nottingham’s people must co-operate fully with Internal Audit and support Internal Audit so that deadlines for completing Internal Audit work and issuance of Internal Audit reports to the Board Audit Committee are met.

Internal Audit team members are personally accountable for safeguarding and using appropriately any information to which they are given access.

### Independence and Objectivity

The Head of Internal Audit will ensure that the Internal Audit Department remains free from all conditions that threaten the ability of Internal Auditors to carry out their responsibilities in an unbiased manner, including matters of Internal Audit selection, scope, procedures, frequency, timing and report content. If the Head of Internal Audit determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal Auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgement on Internal Audit matters to others.

Internal Audits will have no direct operational responsibility or authority over any of the activities audited. Accordingly Internal Auditors will not implement internal controls, develop procedures, install systems, prepare records or engage in any other activity that may impair their judgement including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for The Nottingham and / or affiliates.
- Initiating or approving transactions external to the Internal Audit Department.
- Directing the activities of any of The Nottingham's employee not employed by the Internal Audit Department, except to the extent that such employees have been appropriately assigned to auditing or to otherwise assist Internal Auditors.

Where the head of Internal Audit has or is expected to have roles and / or responsibilities that fall outside of Internal Auditing, safeguards will be established to limit impairments to independence or objectivity. Internal Auditors will disclose any impairment of independence or objectivity, in fact or appearance to the appropriate parties; exhibit professional objectivity in gathering, evaluating and communicating information about the activity or process being examined; make balanced assessments of all available and relevant facts and circumstances; and take necessary precautions to avoid being unduly influenced by their own interests or by others in informing judgements.

The Head of Internal Audit will confirm to the Board Audit Committee, at least annually, the organisational independence of the Internal Audit Department. In addition, the Head of Internal Audit will disclose to the Board Audit Committee any interference and related implications in determining the scope of Internal Auditing, performing work and / or communicating results.

### Scope of Internal Audit Activities

The scope Internal Audit activities encompasses, but is not limited to, objective examinations of the evidence for the purpose of providing independent assessments to the Board Audit Committee, management and outside parties on the adequacy and effectiveness of governance , risk management and control process for The Nottingham. Internal Audit assessments include :

- In accordance with the Internal Audit Plan, to 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: design and operating effectiveness of the internal governance structures and processes of the organisation; the setting of, and adherence to, risk appetite; the risk and control culture of the organisation; risks of poor customer treatment giving rise to conduct or reputational risk; capital and liquidity risks; key corporate events; and outcome of processes;
- Evaluating whether risks relating to the achievement of The Nottingham's strategic objectives are appropriately identified and managed.

### Scope of Internal Audit Activities *(continued)*

- The actions of The Nottingham's Offices, directors, employees and contractors are in compliance with The Nottingham's policies, procedures and applicable laws, regulations and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws and regulations that could significantly impact The Nottingham.
- Information and the means used to identify, measure, analyse, classify and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently and protected adequately.

The Head of Internal Audit will report periodically to senior management and to the Board Audit Committee regarding the Internal Audit Department's purpose, authority and responsibility; Plan and performance in relation to its Plan; conformance against the IIA's Code of Ethics, Standards and action plans to address any significant conformance issues; significant risk exposures and control issues, including fraud risks, governance issues and other matters requiring the attention of, or requested by the Board Audit Committee; Results of Internal Audit engagements or other activities; Resource requirements; and any response to risk by management that may be unacceptable to The Nottingham.

The Head of Internal Audit also coordinates activities, where possible and considers relying upon the work of other internal and external assurance and consulting service providers, as needed. The Internal Audit Department may perform advisory and related 'client' service activities, the nature and scope of which will be agreed with the 'client', provided Internal Audit Department does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

### Responsibility

The Head of Internal Audit has the responsibility to:

- Submit, at least annually, to senior management and the Board Audit Committee a risk-based Internal Audit Plan.
- Meet with all of the Executive and other relevant Senior Managers at least quarterly. The purpose of these meetings is to; ensure that Internal Audit is aware of and understands business developments, risks etc and incorporate these, where necessary within the Internal Audit Planning and delivery.
- Review and adjust the Internal Audit Plan, as necessary, in response to changes in The Nottingham's business, risks, operations, programmes, systems and controls. Communicate to senior management and the BAC any significant interim changes to the Internal Audit Plan.
- Ensure each engagement of the Internal Audit Plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results and the communication of the engagement results within applicable conclusions and recommendations to appropriate parties.
- Ensure effective and relevant quality review procedures, aligned to the relevant standards are conducted by an experienced / senior member of the Internal Audit Team.
- From time to time Internal Audit may complete advisory or consultancy reviews. In these instances an assessment will be made to ensure this will not compromise Internal Audit's independence and objectivity.
- Ensure that the Internal Audit Department collectively possesses or obtains the knowledge and skills and other competencies needed to meet the requirements of the Internal Audit Charter.

### Responsibility *(continued)*

- Internal Audit may co-source certain Internal Audit assignments due to resourcing constraints or to provide specialised expertise or to obtain benchmarking against similar organisations. Any such provider will be required to comply with the principles of this Charter and must be independent to the area(s) reviewed.
- Develop an annual Internal Audit budget, which is maintained through regularly review and assessment.
- Provide the BAC with a regular assessment as to whether the Internal Audit budget is sufficient to recruit and retain staff or procure other appropriate resources to deliver the Internal Audit Plan.
- Follow up on engagement findings and corrective actions and report periodically to senior management and the Board Audit Committee any corrective actions not effectively implemented.
- Ensure trends and emerging issues that could impact The Nottingham are considered and communicated to Senior Management and the Board Audit Committee, as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- The HIA 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. 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.
- Support the External Auditors in fulfilling their statutory duty through successful collaboration between Internal and External Audit, allowing effective and efficient audit coverage. Internal Audit will meet External Audit, at least annually to discuss Plans and any issues arising to provide cost-effective audit coverage to the organisation.
- Establish and ensure adherence to policies and procedures designed to guide the Internal Audit Department.
- Ensure the principles of integrity, objectivity, confidentiality and competency are applied and upheld.
- Ensure adherence to The Nottingham's relevant policies and procedures, unless such policies and procedures conflict with the Internal Audit Charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Board Audit Committee.
- Ensure conformance of the Internal Audit Department with the Standards with the following qualifications:
  - If the Internal Audit Department is prohibited by law or regulation from conformance with certain parts of the Standards, the Head of Internal Audit will ensure appropriate disclosures and will ensure conformance with all other parts of the Standard.
  - If the Standards are used in conjunction with requirements issued by other authoritative bodies, the Head of Internal Audit will ensure that the Internal Audit Department conforms with the Standards, even if the Internal Audit Department also conforms with the more restrictive of the other authoritative bodies.

### Quality Assurance and Improvement Programme

The Internal Audit Department will maintain a quality assurance and improvement programme (QIP) that covers all aspects of the Internal Audit Department. The program will include an annual evaluation of the Internal Audit Department conformance against the Standards and an evaluation of whether the Internal Auditors apply the IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the Internal Audit Department and identify opportunities for improvement.

The Head of Internal Audit will communicate with senior management and the Board Audit Committee on the Internal Audit Department's QIP, including results of any internal assessments (both ongoing and periodic) and external assessment conducted at least once every five years by a qualified, independence assessor or assessment team from outside of The Nottingham.

## 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.

## Document version history

Document Title:	Internal Audit Charter
Approval Authority:	Board Audit Committee
Document Owner:	Head of Internal Audit
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Date	Author	Version	Notes
19/05/14	HIA	01	Complete re-write to reflect CIIA "Effective Internal Audit in the Financial Services sector" recommendations, issued July 2014.
29/05/14	HIA	02	Update of section 3.5 (Authority of Internal Audit) to reflect comments from Board Audit Committee (BAC) Chair in relation to Committee meeting access.
16/05/16	HIA	2016.01.00.01	Existing content transferred to the Documentation template.
21/11/16	HIA	2016.02	Periodic review and submission to December BAC with minor formatting changes, updated role titles and removal of outdated procedural aspects.
19/12/17	HIA	2017.01	Annual review and confirmation at December BAC - no material changes required.
18/09/18	HIA	2018.01	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	2018.01.01	Additional update to remove itemisation of governance committees, reference new strapline and simplify wording (all non-material)
24/08/20	HIA	2020.01	Annual review, alignment and update to reflect the IIA Standard issued Oct 2019; inclusion of advisory aspects; addition of a paragraph that NBS is a regulated body; and the use of co-source provisions. This also reflects the IIA proposed Code of Practice to be published in January 2021.
25/08/21	HIA	2021.01	Annual review and assessment against the IIA Code of Practice as published in January 2021, with no changes