

**Internal Audit Services**



# Internal Audit Services

## Terms of Reference

**Connecting our communities  
with a better financial future**



The terms of reference formally define the purpose, authority, scope, and responsibility of Internal Audit. The annual review and approval of the terms of reference is the responsibility of the Board's Audit Committee. In order to promote an understanding of the role of Internal Audit, these terms of reference are made available via the Society intranet, and publicly available via the Society's website.



## Purpose

The primary role of Internal Audit is to help the Board and Executive Management protect the assets, reputation and sustainability of Newcastle Building Society Group (The Group). It does this by assessing whether all significant risks are identified and appropriately reported by management and the Risk function to the Board and Executive Management; assessing whether they are adequately controlled; and by challenging Executive Management to improve the effectiveness of governance, risk management and internal controls.



## Authority

The Chief Internal Auditor holds the SMF 5 designation within the regulatory framework, and is responsible to the Board of Directors via the Audit Committee, with the right of direct access at any time to the Chair and members of the Audit Committee, Chair of the Group, and the external auditors.

Internal Audit has unrestricted access to all Group records and documents, including material prepared for and by the Board, physical properties, and personnel at all levels, as required for the effective delivery of audit activity. It may attend and observe committee meetings and other key management decision making fora. Internal Audit has strict accountability for the confidentiality and safeguarding the records and information obtained in the scope of its work.



## Independence and Objectivity

Internal Audit staff report to the Chief Internal Auditor, who in turn reports to the Audit Committee Chair and to the Chief Executive.

The Chief Internal Auditor will report to, and liaise with, the Chair of the Audit Committee in between meetings, for the purpose of updating, and discussing key matters in the operation of Internal Audit.

The Chief Internal Auditor will report to the Chief Executive on a monthly basis or as and when required when day to day operational issues arise.

The Chief Internal Auditor will consider guidance and direction from the Chief Executive on a timely basis in resolving any problems arising during audits, or matters arising from reviews. If after dialogue and discussion with the Chief Executive, should there be any unresolved difference of opinion on specific practices, controls or suppression of material facts, the Chief Internal Auditor will refer the matter to the Chair of the Audit Committee in a timely manner, and in all cases within 1 month of the issue being identified.

If the matter of divergence is still not resolved, it will be referred jointly to the Audit Committee and then to the Board of Directors for a decision.



## Independence and Objectivity (continued)

The Audit Committee is responsible for the appointment, remuneration, performance evaluation, or dismissal of the Chief Internal Auditor.

Internal Audit under the governance of the Audit Committee remains 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 comply with codes of ethics and standards as issued by the Chartered Institute of Internal Auditors, and the Guidance on Effective Internal Audit in the Financial Services Sector. In addition Internal Audit adheres to Group policies and procedures.

Internal Audit is independent of the risk and control functions at the first and second lines of defence, and is neither responsible for, nor part of them, they have no operational responsibility or authority over any of the activities audited. Accordingly they will not implement internal controls, develop procedures, install systems, prepare records or take part in any other activity which may impair their judgement. Colleagues who transfer in to the department from other areas of the Group will not be asked to provide services in relation to business activity for which they have had responsibilities in the previous twelve months.

Internal Audit staff must exhibit the highest levels of professional objectivity and confidentiality when gathering, evaluating and communicating information in respect of the area under review. Staff must make a balanced assessment of the circumstances and not be unduly influenced by their own interests or others in forming their opinions, conducting their work with due professional care.

The Chief Internal Auditor will confirm to the Audit Committee at least annually the organisational independence of the function.

The independent role of Internal Audit should in no way diminish a close working relationship with other departments in the Group.

Due regard will be given to the design of any bonus schemes, in order to ensure that operation of the scheme does not impact on auditor independence or objectivity.

A separate bonus scheme is in operation for the internal audit function. The Chief Internal Auditor will agree the functional objectives for the scheme, and review its performance against those objectives with the Audit Committee each year.



## 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 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
- Effective operation of risk management
- Risks of poor customer outcomes
- Capital, liquidity, and other prudential regulatory risks
- Key corporate events
- Outcomes of processes



## Scope (continued)

Consequently Internal Audit will review the design and operational effectiveness of governance, policies, systems and controls established by management, and whether the outcomes achieved through their implementation are in accordance with the Group's strategic objectives, risk appetite, and values, with the aim that;

- Significant risks are identified, managed and reported to Executive Management and the Board
- Business strategy, programmes, plans and objectives are supported
- Products, services and processes results in fair outcomes for customers
- Financial, management, and operating information is accurate, relevant, and timely
- All regulatory and legislative requirements are complied with
- The Groups assets, reputation, and sustainability are protected by the system of internal control
- Employees, and contracted third parties comply with expected policies, standards, and procedures as set out by the Group.



## Responsibilities

**The responsibilities of Internal Audit include;**

- Developing a risk based audit plan covering all aspects of the Group's business (including those of the subsidiary undertakings). In doing so Internal Audit should form its own judgement on how best to segment the audit universe given the structure and risk profile of the organisation. It should take into account business strategy and form an independent view of whether the key risks to the organisation have been identified, including emerging and systemic risks, and assess how effectively these risks are being managed. Internal Audit's independent view should be informed, but not determined, by the views of Management or the Risk function. Where relevant, Internal Audit should assess not only the process followed by the organisation's first and second lines of defence, but also the quality of their work.
- The audit plan including approach to coverage should be submitted for the approval of the Audit Committee on an annual basis and supported by an adequate budget.
- Delivering the agreed audit plan, and reporting the results of audit activities which provides opinion on the adequacy of the internal control framework to management, the Audit Committee, and other committees in the Group when relevant, and the Board.
- Regularly reviewing and updating the audit plan to ensure it remains flexible in light of, for example; changes in the Groups activity, new or emerging risks or regulatory requests and having these changes approved by the Audit Committee.
- Ensuring that corrective action is agreed with the business based upon an acceptable and practical timeframe.
- Monitoring the progress made in relation to audit findings and verifying the actions taken by management as a result.
- Providing periodic reports to the Audit Committee which cover; the results of audit activity and include significant control weaknesses and root cause, and reviews of any lessons learned analysis if a significant adverse event has occurred; progress against the plan and budget, the level and progress on recommendations arising from audit reports, and operational KPI's.



## Responsibilities (continued)

- Internal Audit is not responsible for the prevention and detection of fraud.

Any advisory work to assist management develop an effective control framework is not expected to represent a significant proportion of Internal Audit work. This type of work will be assessed to ensure it does not compromise the independence and objectivity of the function.

### **The responsibilities of the Chief Internal Auditor include;**

- Ensuring that the department has adequate resources, knowledge, and skills to challenge management and enable the audit plan to be carried out. This will include recruitment both internally and externally of adequately qualified staff and outsourcing of audit work where necessary to ensure appropriate specialists are involved. Internal Audit may out/co-source engagements for audit work where an assessment confirms resources or specialist skills are required. This will be reported to the Audit Committee. The provider must be independent of the area under review and conform to the principles of the terms of reference. The Chief Internal Auditor will be responsible for the budget, engagement, and performance of the provider.
- On an annual basis producing a self-assessment report of the effectiveness of the Internal Audit function for the committee. This will include but is not limited to; the independence of the function; compliance with professional standards as issued by the Chartered Institute of Internal Auditors, the skills required to conduct the work needed, and the management of the costs / budget for recruitment and retention of staff. An externally facilitated review will be undertaken under instruction of the Audit Committee in line with IIA standards and at least every five years.
- On an annual basis producing a report summarising the assessment of the overall effectiveness of the governance, and risk and control framework of the organisation, and its conclusions on whether the organisation's risk appetite framework is being adhered to, together with an analysis of any themes and trends emerging from Internal Audit work.
- Ensuring that a quality assurance process is in place to evaluate the performance of and continually develop the function.
- Maintaining open, constructive, and co-operative relationships with regulators, which supports sharing of information relevant to carrying out their respective duties. The regulators may from time to time request work to be undertaken and /or copies of reports. Where this is the case the scope of any review and reports will be approved by the Audit Committee prior to issue.
- Promoting a good working relationship with the Group's external auditors. In addition, all audit reports and working papers will be made available to them, including the exchange of relevant information, in order to maximise the benefit to management of the combined audit resource. Internal Audit will co-ordinate their work with the external auditors where requested or as directed by management. The external auditors may seek to place reliance on the work of internal audit where this will minimise the cost of external audit to the Group.
- Promoting good working relationships with third party auditors and providing information as is necessary to fulfil any audit obligations in contracts. Limitations on the use and circulation of such reports must be explicitly stated. Due regard will be given to the confidentiality of Group matters.