

Newcastle Building Society

Internal Audit Services

Internal Audit Charter

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

Approved by Audit Committee 02.12.2024



Internal Audit Services - Internal Audit Charter

The Internal Audit Charter formally defines the purpose, mandate, authority, scope, and responsibilities of Internal Audit. The annual review and approval of the Internal Audit Charter is the responsibility of the Board's Audit Committee. In order to promote an understanding of the role of Internal Audit, this charter is made available via the Society intranet, and publicly available via the Society's website.

Purpose and Mandate

The primary purpose of Internal Audit is to help the Board and Senior Management protect the assets, reputation and sustainability of Newcastle Building Society Group (The Group). It does this by;

- Providing independent, risk based, and objective assurance, advice, insight and foresight,
- Assessing whether all significant risks are identified and appropriately reported by management to the Board and senior management.
- Evaluating whether the Group is adequately controlled;
- Challenging and influencing senior management to improve the design, implementation, and effectiveness of governance, risk management and internal controls, including identifying controls efficiency

Colleagues will operate and deliver assurance in accordance with the Global Internal Audit Standards,(which includes ethics and professionalism) and the UK Chartered Institute of Internal Auditors Internal Audit Code of Practice. In addition, Internal Audit adheres to Group policies and procedures.

Authority

The Chief Internal Auditor holds the SMF 5 designation within the regulatory framework, and to provide for independence and the standing to challenge management, 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 and timely access to all Group data, records and information, including material prepared for and by the Board, physical properties, and personnel at all levels, as necessary to discharge its responsibilities. 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 colleagues report to the Chief Internal Auditor, who in turn has a primary reporting line to the Audit Committee Chair. 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 has a secondary administrative reporting line to the Chief Executive and will liaise with them on a monthly basis, or as 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. If the matter of divergence is still not resolved, it will be referred jointly to the Audit Committee and Board of Directors if appropriate for a decision.

The Audit Committee Chair is responsible for the appointment, remuneration, or removal of the Chief Internal Auditor, and on an annual basis the setting of objectives and performance appraisal, taking into account the views of the Chief Executive.

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 is independent of the Group's operational management and has no operational responsibility or authority over any of the activities audited. Internal Audit does not set risk appetites, implement risk management or internal controls, or take part in any other activity which may impair their judgement. Colleagues who transfer into the department from other areas of the Group will not be permitted to provide services in relation to business activity for which they have had responsibilities in the previous twelve months.

Internal Audit colleagues must exhibit the highest levels of professional objectivity and confidentiality when gathering, evaluating and communicating information in respect of the area under review. Colleagues 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 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 leadership roles within the internal audit function. On an annual basis the Chief Internal Auditor will seek approval from the Audit Committee for the proposed functional objectives for the

scheme, and the review of performance against those objectives.

Scope and Priorities

The scope of Internal Audit is unrestricted and includes;

- Purpose, strategy, and business model
- Organisational culture
- Internal governance
- The setting of, and adherence to, risk appetites
- Key corporate and external events
- Capital, liquidity, and other prudential regulatory risks
- Risks of poor customer outcomes giving rise to reputational or conduct risk
- Environmental sustainability, climate change risks and social issues.
- Financial crime, economic crime and fraud.
- Technology, cyber, digital, and data risks
- Risk management, compliance, finance and other control functions
- Outcomes of processes.

Internal Audit should form its own judgement on how best to determine coverage based upon the structure and risk profile of the Group. In forming its view it should independently consider Group strategy and key risks, including emerging and systemic risks and how effectively they are being managed. Internal Audit's independent view should be informed by but not determined by the views of stakeholders including management and focus on areas where it considers risk to be higher for inclusion in audit plans. In doing so it does not necessarily have to cover all scope areas every year. Internal Audit should not only assess the process followed by the other lines of defence but also the quality of their work.

Responsibilities

Led by the Chief Internal Auditor the responsibilities of Internal Audit include;

- Developing a functional strategy and risk based audit plans, including significant changes, for approval by the Audit Committee. Audit plans should be dynamic in light of ongoing assessment of risk, updated regularly and have flexibility to deal with unplanned events to prioritise work of importance.
- Attending and reporting the results of its work to the Audit Committee and key governance committees.
- Reports should be relevant to the remit of the respective governing bodies and provide;
 - overall opinions on the areas in scope, insights on control weaknesses and root cause analysis, any thematic and systemic issues, including owners, accountabilities and timescales, a view on managements reporting of risk management and remediation plans and any significant delays.

- a review of any post-mortem or lesson learned analysis where a significant event has occurred covering where applicable the roles of the first and second lines of defence, and internal audit's own role.
 - themes and trends impacting the Group.
 - insights on areas where governance risk management and controls are effective, and where control efficiencies have been identified by internal audit.
- At least annually reporting should include an overall opinion on the effectiveness of the governance and risk and control framework, and whether risk appetite is being adhered to. This supports applicable Board disclosures on the Group's risk management and material controls.
 - Assessing and interacting with other assurance providers understanding coverage and aligning on timing. In no circumstances should internal audit rely exclusively on the work of others and where any judgement results in less intensive IA scrutiny this must be supported by an appropriate evaluation of the effectiveness of that function to the area under review.
 - Ensuring the internal audit team has the resource skills, experience and diversity, including technical subject matter expertise commensurate with the scale and risk profile of the Group, to provide effective challenge through the Group and senior management. This may entail training, recruitment, secondment and use of co-source. The adequacy of resource and budget will be reported to the Audit Committee. Internal Audit will recruit, retain, and promote talent in accordance with the Group's policies.
 - Regularly evaluating and ensuring the audit team has appropriate tools and technology to support the function's impact, effectiveness, and efficiency.
 - Maintaining up to date policies, procedures, and performance and effectiveness measures which are agreed with the Audit Committee.
 - Develop a quality assurance and improvement programme (QAIP), conduct periodic self-assessments against the IIA Code of Practice and GIAS and report the results to the AC at least annually, and regularly report on the progress of any actions arising.
 - Ensure an externally facilitated review is undertaken at least every five years in accordance with GIAS and reported to the AC. The AC Chair will oversee and approve the appointment process for the independent assessor.
 - Maintaining open, constructive and co-operative relationships with the Group's regulators, to support sharing of information relevant to the respective responsibilities.
 - Maintaining appropriate and regular communication with the Group's external auditor and the sharing of information.
 - Advisory work is permissible and may be initiated by Internal Audit or delivered at the request of the Board or management. Internal Audit will be expected to maintain objectivity and not take on any management responsibility when performing advisory services.