



The Cumberland

Internal Audit Charter

July 2023

Introduction

The Institute of Internal Auditors (IIA) definition of internal auditing is 'Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.'

Internal Audit's mission is to support The Cumberland in accomplishing its goals and objectives by bringing a professional and constructive approach to evaluate and improve the adequacy and effectiveness of the organisation's risk management, control and governance processes and culture including responses to risk across all activities of the organisation.

Principles and Governance

- Internal Audit is committed to a philosophy of working to the highest ethical and professional standards.
- Internal Audit is governed by the mandatory elements of International Professional Practice Framework (IPPF) established by the IIA. As such, Internal Audit works to the IIA Standards, the Code of Ethics, the Core Principles, and the Definition of Internal Auditing. The Internal Audit function is working towards conformance with the aforementioned standards, codes of practice and frameworks; with any material non-conformance being disclosed. Internal Audit also applies the recommendations from the Committee on Internal Audit Guidance for Financial Services on 'Internal Audit Financial Services Code - January 2021' (FS Code).

Authority and Positioning

- The Head of Internal Audit reports functionally to the Chairman of the Cumberland Audit Committee (a permanent Board committee) and administratively to the Chief Executive.
- The Head of Internal Audit has right of access to the Chair of the Society's Board.
- The Audit Committee approves the appointment or removal of the Head of Internal Audit.
- The Audit Committee Chair in conjunction with the CEO performs the performance evaluation of the Head of Internal Audit as well as agreeing their annual compensation. The Head of Internal Audit has equivalent authority to executive peers across the Cumberland. The Internal Audit management structure is also reflective in terms of remuneration and authority to their equivalent peers. The Head of Internal Audit will communicate directly and have full, free, and unrestricted access to all relevant governing bodies or executive meetings (albeit not as a decision maker).
- The Head of Internal Audit will not assume responsibility for any other function or for determining the policy of the Cumberland.
- Internal Audit staff will not audit any activity for which they have undertaken some advisory work or has had authority or responsibility within the past year.
- Internal Audit staff must have an impartial, unbiased attitude and avoid any conflict of interest.
- Internal Audit's scope is unrestricted, and they hold full, free, and timely access to all The Cumberland's functions, records, physical properties, and personnel pertinent to carrying out any engagement. Contracts with key third parties will contain the provision enabling right of audit access.

- All employees are required to assist Internal Audit in fulfilling its roles and responsibilities through taking ownership of and providing a timely response to information requests, audit findings and actions.
- Management is responsible for the establishment and maintenance of effective risk management practices and internal controls within the Society and for periodically confirming their continued operation.
- Internal Audit is a review function that does not relieve management of the responsibility for maintaining effective controls.
- Internal Audit is not authorised to perform line activities as this would impair its objectivity and it does not have direct responsibility or authority over the activities it reviews.

Scope, Role and Responsibility

Internal Audit's scope is not limited, and all risk, systems and objectives of the Society are considered as part of the development of the Internal Audit Plan. At The Cumberland Internal Audit is solely an assurance function and does not provide consulting services. When developing the assurance priorities Internal Audit also considers the recommendations of the FS Code which recommends that Internal Audit considers the following areas:

- Internal governance.
- The information presented to the Board and Senior Leadership Team for strategic and operational decision making.
- 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.
- Outcomes of processes.

In addition to the completion of reviews as outlined in the Internal Audit Plan, Internal Audit activities will:

- consider the financial crime framework (incl. fraud risk management and events) and investigate instances where a potential fraud against the Society may have taken place.
- also include assurance and project work, in accordance with Executive Director, Audit Committee or regulatory requests.
- report to Board Audit Committee, as appropriate, a review of any post-mortem and 'lessons learned' analysis if a significant adverse event has occurred (for example, a regulatory breach). Any such review will assess both the role of the first and second lines of defence and Internal Audit's own role.
- At least annually, Internal Audit will report to Board Audit Committee its opinion as to the overall effectiveness of the governance, and risk management and control framework of the Society, and its conclusions on whether the organisation's risk appetite framework is being adhered to, together with an analysis of themes and trends emerging from Internal Audit work and their impact on the Society's risk profile.

Internal Audit will:

- Apply strict accountability for the confidentiality and safeguarding of records and information, and the accuracy of outputs.

- Comply with regulation, internal policies, laws and risk management requirements across The Cumberland and the regions in which it operates.
- Where necessary, inform Audit Committee and governance boards prior to notifying regulatory authorities of any relevant matters.
- Give honest, independent, strategically minded, and constructive feedback based on facts determined through thorough and professional research, analysis, and testing.
- Support the business through the provision of ad-hoc advice as required, including attendance at management/project/executive committee meetings in a nondecision making capacity.
- Assess the controls in place to safeguard assets on a risk assessed basis.
- Provide oversight and opinion on the organisation's culture and conduct and strive to protect The Cumberland's reputation through risk assessed review performed by the function.
- Continually assess the capability of the function and, where gaps are identified, act to address these through training, recruitment, or use of co-source partners.

Planning, Oversight and Quality Principles

Internal Audit will:

- Maintain a view of the organisation through business intelligence gathering and relationship management activities to ensure an informed and risk assessed Internal Audit plan is maintained at all times to decide priorities.
- Develop a risk based '6+6' rolling Internal Audit plan which is updated and discussed with Audit Committee on a six-monthly basis; with the first six months being planned activity and the second six-month period being an indicative plan of work. The Audit Committee approves the budget for the use of external resource required to support delivery of the plan.
- Manage and monitor their use of resource at all times and continue to develop their people as a valued resource to the Society. The Head of Internal Audit may utilise internal and external resources to complete the audit work and will alert the Audit Committee immediately if they feel there are inadequate resources to fulfil Internal Audit's obligations to the Board.
- Internal Audit will maintain a quality assurance and improvement programme and report to Audit Committee on an annual basis.
- Arrange an external, independent body to conduct an external assessment of Internal Audit against the IPPF and Financial Services Code at least once in every 5-year period. The Audit Committee will be asked to sponsor the review and agree the timing, scope, and appointment of the external assessor. The results will be reported to the Audit Committee.

Delivery Principles

Internal Audit's review process will:

- Apply appropriate rationale and intelligence gathering when determining coverage and areas of scope.
- Adopt a constructive and collaborative approach at all times.
- Obtain input to and share outputs of work performed with management in a timely manner to allow appropriate opportunity for engagement and response.

- Seek to identify commercially focused, value adding improvement opportunities and support the business with risk and control advice throughout their implementation.

Reporting Principles

Internal Audit will be present at and report their activity to the Audit Committee. Internal Audit reporting, where applicable, will include:

- The Head of Internal Audit has direct access to the Audit Committee Chair.
- Progress being made against the approved Internal Audit plan and performance measures.
- Work performed and concerns identified and examples of strong performance and best practice where they are identified.
- Progress in implementing agreed actions following internal audit reports, including any actions not being addressed in a timely manner with management's response to this as an indicator of risk culture.
- Industry and regulatory context to allow the Board to assess content in relation to the current environment.
- Relevant information of interest such as emerging trends and themes, root cause analysis, issues of group consistency and examples of poor culture.
- Keeping the Audit Committee informed of key personnel, adequacy of resources, structural or methodological changes to Internal Audit's approach and seeking approval for these where appropriate.
- Corrections of any significant errors or omissions in reporting made in previous periods.
- Instances where there exists a disagreement between management and Internal Audit on whether an action is required.

Internal Audit Charter Approval

This charter is reviewed and approved by the Audit Committee each year.