

# **Internal Audit Charter for Leeds Building Society**

## **Purpose**

The purpose of the internal audit function is to strengthen the Society's ability to create, protect, and sustain value by providing the Board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function helps to enhance the Society's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve current and future members' interests.

## ***Commitment to Adhering to the Global Internal Audit Standards***

The Society's internal audit function will adhere to the mandatory elements of The Institute of Internal Auditors' (IIA) International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements. The Chief Internal Auditor will report at least annually to the Audit Committee regarding the internal audit function's conformance with the Standards, which will be assessed through a quality assurance and improvement programme.

## **Mandate**

### ***Authority***

The Society's Board, through the Audit Committee (a sub-committee of the Board), grants the internal audit function the mandate to provide the Board and senior management with objective assurance, advice, insight, and foresight.

The internal audit function's authority is created by its direct reporting relationship to the Audit Committee. Such authority allows for unrestricted access to the Audit Committee and the Board.

The Audit Committee authorises the internal audit function to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and people pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information. However, it is acknowledged that such access may be limited to the Chief Internal Auditor where the information is highly sensitive or confidential.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the internal audit function's objectives.
- Obtain assistance from the necessary colleagues of the Society and other specialised services from within or outside the Society to complete internal audit services.

## ***Independence, Organisational Position, and Reporting Relationships***

The Chief Internal Auditor is positioned at a level in the organisation that enables internal audit services and responsibilities to be performed without undue influence from management, thereby establishing the independence of the internal audit function. The Chief Internal Auditor reports functionally to the Chair of the Audit Committee and administratively (i.e. for day-to-day operations) to the Chief Executive Officer. This positioning provides the organisational authority and status to bring matters directly to senior management and escalate matters directly to the Audit Committee / Board, when necessary, and supports internal auditors' ability to maintain objectivity.

The Chief Internal Auditor is a member of the Executive Committee (ExCo), and to prevent conflicts of interest between this role and leading the independent internal audit function, the Chief Internal Auditor's contributions to ExCo are in the form of questions and insights, not decision-making, conclusions or advocacy. Furthermore, some members of the internal audit function attend committees, working groups and steering committees to gather information and offer challenge. In these circumstances the internal auditors are attendees only and not members, and do not contribute to decision-making.

The Chief Internal Auditor will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit function. In the event that internal auditors encounter any barriers related to the scope, performance, or communication of internal audit work and results the Chief Internal Auditor will disclose this to the Audit Committee. The disclosure will include communicating the implications of any such barriers on the internal audit function's effectiveness and ability to fulfil its mandate.

### ***Changes to the Mandate and Charter***

Circumstances may justify a discussion between the Chief Internal Auditor, Audit Committee, and senior management on the ongoing appropriateness of the internal audit function's mandate or other aspects of this internal audit charter. Such circumstances may include but are not limited to:

- A significant change in the Global Internal Audit Standards.
- A significant acquisition or reorganisation within the organisation.
- Significant changes in the Chief Internal Auditor, Board, Audit Committee, and/or senior management.
- Significant changes to the organisation's strategies, objectives, risk profile, or the environment in which the organisation operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

## **Board Oversight**

The Audit Committee Terms of Reference outline the duties of the Audit Committee in relation to oversight of the internal audit function.

# Chief Internal Auditor Roles and Responsibilities

## ***Ethics and Professionalism***

The Chief Internal Auditor will ensure that internal auditors:

- Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organisation and are able to recognise conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the organisation.
- Report organisational behaviour (to e.g. the Chief Executive Officer or the Chair of the Audit Committee) that is inconsistent with the organisation's ethical expectations, as described in applicable policies and procedures.

## ***Objectivity***

The Chief Internal Auditor will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the Chief Internal Auditor determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgement on audit matters to others, either in fact or appearance.

Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing operational duties for the Society.
- Initiating or approving transactions external to the internal audit function.
- Directing the activities of any Society colleague that is not employed by the internal audit function, except to the extent that such colleagues have been appropriately assigned to the internal audit function or to assist internal auditors.

Internal auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties such as the Chief Internal Auditor, Chair of the Audit Committee, Board, management, or others.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

Occasionally, the internal audit function may invite subject matter experts from within the Society to support with assurance services as 'guest auditors'. In any such case, objectivity will be upheld through adherence to the internal audit methodology and the quality assurance programme.

### ***Managing the Internal Audit Function***

The Chief Internal Auditor has the responsibility to:

- Develop a risk-based internal audit plan that considers the input of the Audit Committee and senior management. Discuss the plan with the Audit Committee and senior management, and submit the plan to the Audit Committee for review and approval at least annually.
- Communicate the impact of resource limitations on the internal audit plan to the Audit Committee and senior management.
- Review and adjust the internal audit plan in response to changes in the Society's business, risks, operations, programmes, systems, and controls, and communicate significant interim changes to senior management and to the Audit Committee for approval.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards.
- Follow up (via a risk-based approach) on engagement findings and confirm the implementation of recommendations or action plans.
- Communicate the results of internal audit services to the Audit Committee and senior management through individual reports for each engagement and summary reporting to Audit Committee meetings.
- Ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Global Internal Audit Standards and fulfil the internal audit function's mandate. The internal audit function may utilise third party co-source support where additional expertise is required.
- Identify and consider trends and emerging risks / issues that could impact the Society and communicate to the Audit Committee and senior management as appropriate.
- Consider emerging trends and successful practices in internal auditing.
- Establish and ensure adherence to the internal audit function's methodology.
- Ensure adherence to the Society's relevant policies and procedures unless such policies and procedures conflict with this internal audit charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the Audit Committee and senior management.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. The internal audit function will not place reliance on the work of other assurance providers unless a thorough evaluation of their effectiveness has taken place. If the Chief Internal Auditor cannot achieve an appropriate level of coordination, the issue will be communicated to senior management and if necessary escalated to the Audit Committee.

### ***Communication with the Audit Committee and Senior Management***

The Chief Internal Auditor will report at appropriate frequencies, and at least annually, to the Audit Committee (or directly to the Board if more appropriate) regarding:

- The internal audit function's mandate.
- The internal audit plan and performance relative to the plan.
- The internal audit function's budget.
- Significant revisions to the internal audit plan and budget.
- Potential impairments to independence, including relevant disclosures as applicable.
- Results from the quality assurance and improvement programme, which include the internal audit function's conformance with the IIA's Global Internal Audit Standards and action plans to address the internal audit function's deficiencies and opportunities for improvement.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the Board.
- Results of assurance and advisory services.
- Resource requirements.
- Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond the Society's risk appetite.

### ***Quality Assurance and Improvement Programme***

The Chief Internal Auditor will develop, implement, and maintain a quality assurance and improvement programme that covers all aspects of the internal audit function. The programme will include external and internal assessments of the internal audit function's conformance with the Global Internal Audit Standards, as well as performance measurement (for example through the internal audit balanced scorecard) to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The programme will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address the internal audit function's deficiencies and opportunities for improvement.

Annually, the Chief Internal Auditor will communicate with the Audit Committee about the internal audit function's quality assurance and improvement programme, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Society; qualifications must include at least one assessor holding an active Certified Internal Auditor® credential.

### **Scope and Types of Internal Audit Services**

The scope of internal audit services covers the entire breadth of the organisation, including all of the Society's activities, assets, and people, as set out in the internal audit function's audit universe. The scope of internal audit activities also encompasses, but is not limited to, objective examinations of evidence to provide independent assurance and advisory services to the Board / Audit Committee / management on the adequacy and effectiveness of governance, risk management, and control processes within the Society. As well as aiming to add value through

high quality analysis and pragmatic solutions to control-related matters, the internal audit function will highlight areas of good practice, opportunities to improve efficiency and themes where lessons can be learned across the Society.

The nature and scope of advisory services may be agreed with the party requesting the service, provided the internal audit function does not assume management responsibility and maintains independence and objectivity throughout. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements, and any such opportunities will be communicated to the appropriate level of management. Advisory work will typically be added to the internal audit plan.

The scope of internal audit includes (but is not limited to) the areas outlined below:

- Whether appropriate activities have been established to embed the Society's Purpose and deliver strategic priorities.
- Design and operating effectiveness of internal governance mechanisms (for example committees; organisational design; roles, responsibilities and accountabilities).
- The setting of and adherence to the Society's risk appetite.
- Effective management of each of the Society's principal risks.
- Risk based reviews of organisational culture (including but not limited to the risk and control culture), including whether the processes, actions, 'tone at the top' and observed behaviours are appropriate.
- Management of risk of customer harm/ poor customer outcomes.
- Consistency of actions of the Society's officers, directors, management, colleagues, and contractors with the Society's policies, procedures, and applicable laws, regulations, and governance standards.
- Assessment of the outcomes of operations, programmes, policies and processes (including alignment to objectives, efficiency, effectiveness and compliance with relevant laws and regulations).
- The integrity of information and reliability of the means used to identify, measure, analyse, classify, and report such information.
- Acquisition, use and protection of resources and assets.
- Review of lessons learned if a significant adverse event occurs, including an assessment of the role played by each of the three lines of defence.
- Management of key corporate events (for example: mergers; acquisitions; divestments; large-scale change programmes / product launches).

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