

Exeter Friendly Society Limited
 ('the Company', 'The Exeter' or 'EFS')

Internal Audit Charter

Policy Owner / Author	Approved by	Date Issued / reviewed	Last Approval date	Next Review
Board (Sponsor: Chair of Audit Committee) / Head of Internal Audit	Audit Committee / Board	12/2024	12/2024	09/2025

SUMMARY & DOCUMENT PURPOSE

The purpose of this Internal Audit Charter is to document and outline the governance of the Internal Audit function within The Exeter. The charter covers The Exeter and its subsidiaries and any references to The Exeter should be taken to include its subsidiaries.

The policy forms part of The Exeter's corporate governance and internal controls arrangements. It also explains our underlying approach to Internal Audit and documents the roles and responsibilities of the Head of Internal Audit and Operational Management.

TARGET AUDIENCE

This Charter applies to all Internal Audit employees and any third parties acting on behalf of Internal Audit. This Charter may be shared on request with third parties that provide internal audit services on our behalf.

LINKS TO OTHER POLICIES, PROCEDURES OR GUIDANCE

- Personal Data & Record Retention Policy
- IA Manual

DETAILS

1. Mission and Purpose

The Chartered Institute of Internal Auditors ("CIIA"), approved by the Institute's Global Board of Directors, has defined Internal Audit as:

"...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."

Unlike External Auditors, the Internal Audit function looks beyond financial risks and statements to consider wider issues such as The Exeter's reputation, growth and the way it treats its customers and employees.

Audit responsibilities include, but are not restricted to:

- Providing independent assurance to The Exeter that key controls are in place, adequate and operating effectively.
- Determining whether the systems and controls are operating in accordance with The Exeter's procedural documentation, and comply with policies, laws, regulations and other requirements.

- Providing assurance to the Board, Audit Committee and senior management that actions identified to mitigate risks are being completed in accordance with the agreed timescales.
- Offering advice regarding risk management, internal control and governance arrangements.
- Reviewing the suitability, accuracy, reliability and integrity of management information.
- Undertaking special investigations, as necessary.
- Providing consulting services with a view to facilitating effective business decision-making regarding risk management, internal control and governance.
- Liaising with other assurance providers such as The Exeter's Compliance and Risk Management functions, and External Audit.

In carrying out this responsibility, Internal Audit aims to add value to The Exeter by offering best practice solutions and identifying opportunities for business improvement where possible.

Internal Audit's responsibilities extend to the maintenance of a working relationship with the External Auditors to ensure minimal overlap / duplication of efforts, and uniformity in communication to management to ensure that any control weaknesses will be properly addressed.

Internal Audit will also work closely with The Exeter's Compliance and Risk Management functions to provide a comprehensive and co-ordinated package of internal assurance. As part of this, Internal Audit will co-ordinate reviews with Compliance Monitoring activity; however, Internal Audit is not relieved of its responsibilities in areas that are subject to review by Compliance; but instead, should always assess the extent to which it can rely upon this regulatory assurance.

Internal audit results (including copies of reports, work programmes or working papers) may be securely communicated outside of the organisation to the Society's partners, outsourcers, External Auditors, regulators, and other external assurance providers where required.

2. International Standards for the Professional Practice of Internal Auditing

To achieve its role, Internal Audit has adopted the Chartered Institute of Internal Auditors Professional Practices Framework. This Framework is comprised of the International Internal Audit Standards and the Code of Ethics.

The Standards are designed to explain the best practice principles which underpin the practice of internal auditing. They provide that Internal Audit must:

- Be independent and objective in performing their work.
- Perform all audits with proficiency and due professional care.
- Add value to the organisation and follow a risk-based approach.
- Evaluate and contribute to the improvement of risk management, control and governance processes using a systematic and disciplined approach.
- Establish a follow-up process to ensure that agreed management actions to improve controls are implemented effectively.

The Code of Ethics provides that Internal Auditors must exhibit:

- Integrity - Act with integrity and thus establishing trust and reliance on their judgement;
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- Objectivity - Exhibit the highest levels of objectivity in undertaking their work;
- Confidentiality - Respect the value and ownership of the information they receive;
- Competency - Apply the knowledge skills and experience needed for their role.

3. Independence and Authority

Internal Audit must be independent of all other activities undertaken within The Exeter to achieve the balanced judgements required for the provision of objective assurance. During an audit, Internal Auditors must retain an impartial, unbiased attitude and avoid any conflicts of interest. As such, no member of the Internal Audit function will have direct responsibility or authority for any of the activities or operations they review. Where potential threats to independence and objectivity are identified, they are to be reported to the Chair of the Audit Committee.

Internal Audit may serve in a consulting capacity to advise the business on best practices, control design, risk management, processes, etc. where there are clear terms of reference for the work, and it is understood that the staff member is acting as a consultant rather than an Internal Auditor. Furthermore, to maintain the independence and objectivity of Internal Audit, management remains responsible for making the final decision on accepting and implementing advice given.

In line with the principles laid out in the Internal Audit Code of Practice 2024:

- The Head of Internal Audit should be positioned at a senior management level (normally expected to be at executive committee or equivalent) within the organisation to give them the appropriate standing, status, access and authority to challenge senior management (Principle 15).
- Internal audit should have the right to attend and observe all or part of executive committee meetings and any other key management decision-making fora e.g. board risk committee. This enables internal audit to understand better the strategy of the business, key business issues and decisions, and to adjust internal audit priorities where appropriate (Principle 16).
- Internal audit should have unrestricted and timely access to key management information and a right of access to all of the organisation's data, records, information, personnel and physical properties necessary to discharge its responsibilities. This includes access to board and executive committee papers (Principle 17).
- The primary reporting line for the Head of Internal Audit should be to the Chair of the Audit Committee (Principle 18).

Principle 24 states that if Internal Audit has a secondary (administrative) reporting line, then this should be to the CEO in order to preserve independence from any particular business area or function and to establish the standing of Internal Audit alongside the executive committee members. The Code of Conduct also states that "The Internal Audit functions ability to fully conform with the standards may be affected by its size or the size of the organisation". Therefore, using proportionality, it has been agreed that the secondary reporting line for the Head of Internal Audit will be the Chief Risk Officer ("CRO") and not the CEO, with the following controls in place to mitigate any independence issues:

- The Audit Committee should review and approve the appropriateness of the secondary reporting line on an annual basis.
 - A 'one-to-one' meeting is held between the Head of Internal Audit and the Chair of the Audit Committee at least on a quarterly basis.
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- The Head of Internal Audit meets privately with the Audit Committee, without the CEO or CRO present, on an annual basis.
- Where the CRO is named as a key stakeholder in an audit, the Chair of the Audit Committee will approve the Terms of Reference and the Report.

The detailed responsibilities of the primary and secondary reporting lines (as well as the Audit Committee) are detailed in the IA Manual.

Performance appraisals should consider the independence, objectivity and tenure of the Head of Internal Audit. Where the tenure of the Head of Internal Audit exceeds seven years, the Audit Committee should explicitly discuss annually the Chair's assessment of the Head of Internal Audits independence and objectivity (Principle 21).

The Chair of the Audit Committee should be responsible for recommending the remuneration of the Head of Internal Audit to the Remuneration Committee. The remuneration of the Head of Internal Audit and Internal Audit staff should be structured in a manner that avoids conflicts of interest, does not impair their independence and objectivity and should not be directly or exclusively linked to the short term performance of the organisation.

In order to preserve independence from any particular business area or function and to establish the standing of internal audit alongside the executive committee members, Internal Audit reports will not be issued to the CEO or Executive Committee for approval. Final reports are included in Executive Committee papers for information only.

To avoid potential conflicts of interest, any internally recruited or seconded Auditors will not be involved in the auditing of activities or functions they previously performed at The Exeter for a period of 12 months.

4. Scope of Internal Audit Activities

The scope of Internal Audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments on the adequacy and effectiveness of governance, risk management, and control processes.

The Head of Internal Audit will report periodically to senior management and the governing body on the results of its department and the work the activity performs.

5. Responsibilities

Internal Audit

The Head of Internal Audit is responsible for:

- Maintaining The Exeter's Audit Universe, including Internal Audit risk assessments.
 - Developing an annual audit plan based upon the significant risks to The Exeter.
 - Providing the audit plan to the Audit Committee for review and agreement.
 - Ensuring timely implementation of the plan.
 - Ensuring that the Internal Audit function has sufficient knowledge, skills and expertise to carry out planned reviews.
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The level of coverage and audit methodology used to carry out the above will be dependent upon the risk that each area poses to The Exeter's internal control framework.

Internal Audit is not responsible for:

- Performing control activities on behalf of management.
- The implementation and monitoring of corrective actions.
- The prevention and detection of fraud. However, an element of the audit work carried out should be to give management an objective assessment of the potential risk of fraud within the audited processes.

Operational Management

Internal Audit cannot fulfil its function or meet its responsibilities without the co-operation of management. The department requires management to agree and acknowledge that their role includes:

- The identification of the key systems within their operational area, identification of the risks and determining the most appropriate control systems.
- Participation in the audit process, including making the appropriate staff available to Audit, and providing management comment within the report delivery timetable.
- Responsibility to agree with Internal Audit suitable remediation plans to mitigate risk to within the agreed risk appetite.
- Operating and monitoring the control systems to sustain a visible control environment, which assists in the prevention and detection of fraud.

Management should acknowledge that during an audit review, Internal Audit may identify a weakness related to an internal control which is beyond the remit of the team/function being audited. It is Internal Audit's responsibility to report all control vulnerabilities which have an actual or potential impact on the achievement of objectives, regardless of individual ownership or accountability.

Management is responsible for the implementation and monitoring of agreed actions to which they have committed, and performance of a recent internal audit does not in any way relieve management or other persons in The Exeter of the responsibilities assigned to them.

6. Quality Assurance and Improvement Program

Internal Audit will maintain a quality assurance and improvement programme. The programme will include:

- External Quality Assessment: IPPF Standard 1312 (External Assessments) states that 'External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation'. Therefore, the Audit Committee will review the requirement for external assessments to be conducted by a qualified, independent assessor at least once every 5 years.
 - Internal Audit Self-Assessment: On an annual basis, the Head of Internal Audit will complete a self-assessment of the Internal Audit function, in line with the IIA standards and IA Code of Practice, and results will be reported to ExCo and the Audit Committee.
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- **Post Audit Quality Assurance Review:** A Quality Assurance Review is completed after every audit to check compliance with the IA Manual and ensure quality standards are achieved. A copy of the review form should be saved in the Audit Folder (06. Closure) and the score % detailed in the Post Audit QA Tracker in the Internal Audit Teams site.
- **Post Audit Questionnaire:** After each audit has concluded, a Post Audit Questionnaire is issued to the key stakeholders (via the Form in the Internal Audit Teams page) and results are collated and reported annually to the ExCo and Audit Committee.

The Head of Internal Audit will report to the Executive Committee, the Board and the Audit Committee on the Internal Audit department's quality assurance and improvement programme, including results of internal assessments.

COMPLIANCE **Policy compliance and record keeping**

This Internal Audit Charter will be reviewed at least annually but changes at other times may be proposed where necessary. The outcomes of any reviews and any recommended changes must be agreed by the Audit Committee prior to being submitted to the Board for approval.

Internal Audit will keep records appertaining to Internal Audit activities in line with the timescales detailed in the Internal Audit Record Retention Policy. Any records not listed in this policy will fall under the Personal Data & Record Retention Policy.

Training

The Exeter will provide training to all Internal Audit colleagues to help them understand their duties and responsibilities under this Charter.

POLICY CONTACTS **How to seek advice or raise a concern**

If you have any questions, we recommend that you speak to the Head of Internal Audit.

Contacts

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