
Internal Audit Charter

Final

**Progressive Building
Society**

26 February 2015

About this charter

This Internal Audit Charter provides the framework for the conduct of the Internal Audit function in Progressive Building Society and has been approved by the Audit Committee. It has been created with the objective of formally establishing the purpose, authority and responsibilities of the Internal Audit function.

Purpose

Internal Auditing is an independent, objective assurance and consulting activity designed to add value to and improve the Society's operations and to protect the assets, reputation and sustainability of the Progressive Building Society. It helps the Society accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

Scope

All of Progressive Building Society's activities (including outsourced activities) and legal entities are within the scope of Internal Audit. Internal Audit recommends what areas within its scope should be included within the annual audit plan by adopting an independent risk based approach and consulting with Senior Management and the Audit Committee. Internal Audit does not necessarily cover all potential scope areas every year. The audit program includes obtaining an understanding of the processes and systems under audit, evaluating their adequacy, and testing the operating effectiveness of key controls. The Internal Audit Plan is determined by the Audit Committee based upon the assurance they require over the risks facing the Society.

Internal Audit can also, where appropriate, undertake special investigations and consulting engagements at the request of the Audit Committee, senior management and regulators.

Internal Audit will coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

Authority

The Internal Audit function of Progressive Building Society derives its authority from the Board through the Audit Committee. The Head of Internal Audit is authorised by the Audit Committee to have full and complete access to any of the organisation's records, properties and personnel. The Head of Internal Audit is also authorised to designate members of his audit staff to have such full and complete access in the discharging of their responsibilities, and may engage experts to perform certain engagements which will be communicated to management. Internal Audit will ensure confidentiality is maintained over all information and records obtained in the course of carrying out their audit activities.

Responsibility

The Head of Internal Audit is responsible for preparing the annual audit plan in consultation with the Audit Committee and senior management, submitting the audit plan, internal audit budget, and resource plan for review and approval by the Audit Committee, implementing the approved audit plan, and issuing periodic audit reports on a timely basis to the Audit Committee and senior management.

The Head of Internal Audit is responsible for ensuring that the Internal Audit function has the skills and experience commensurate with the risks of the Progressive Building Society. The Audit Committee should make appropriate inquiries of management and the Head of Internal Audit to determine whether there are any inappropriate scope or resource limitations.

It is the responsibility of management to identify, understand and manage risks effectively, including taking appropriate and timely action in response to audit findings. It is also management's responsibility to maintain a sound system of internal control and improvement of the same. The existence of the Internal Audit function, therefore, does not in any way relieve them of this responsibility.

Management is responsible for fraud prevention and detection. As Internal Audit performs its work programs, it will be observant of manifestations of the existence of fraud and weaknesses in internal control which would permit fraud to occur or would impede its detection.

Independence

Internal Audit staff will remain independent of the business and they shall report to the Head of Internal Audit who, in turn, shall report functionally to the Audit Committee and administratively to the Deputy Chief Executive and Finance Director.

Internal Audit staff shall have no direct operational responsibility or authority over any of the activities they review. Therefore, they shall not develop nor install systems or procedures, prepare records or engage in any other activity which they would normally audit. Internal Audit staff with real or perceived conflicts of interest must inform the Head of Internal Audit, and then the Audit Committee, as soon as these issues become apparent so that appropriate safeguards can be put in place.

Professional competence and due care

The Internal Audit function will perform its duties with professional competence and due care. Internal Audit will adhere to the Definition of Internal Auditing, Code of Ethics and the Standards for the Professional Practice of Internal Auditing that are published by the Institute of Internal Auditors.

Internal Audit will also adhere to the recommendations from the Committee on Internal Audit Guidance for Financial Services (Effective Internal Audit in the Financial Services Sector) published in July 2013.

Reporting and monitoring

At the end of each audit, the Head of Internal Audit or designee will prepare a written report and distribute it to the agreed recipients determined by the Audit Committee. Internal Audit will be responsible for appropriate follow-up of audit findings and recommendations. All significant findings will remain in an open issues file until cleared by the Head of Internal Audit through agreement with the Audit Committee.

The Audit Committee will be updated regularly on the work of Internal Audit through periodic and annual reports. The Head of Internal Audit shall prepare reports of audit activities with significant findings along with any relevant recommendations and provide periodic information on the status of the annual audit plan.

Periodically, the Head of Internal Audit will meet with the Chair of the Audit Committee in private to discuss internal audit matters.

The performance of Internal Audit will be monitored through the implementation of a Quality Assurance and Improvement Programme, the results of which will be reported periodically to Senior Management and the Audit Committee.

Definitions

Board	The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the Progressive Building Society. It comprises both Non-executive and Executive members under an Independent Non-executive Chairman.
Audit Committee	The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.
Senior Management	<p>The individuals at the highest level of organisational management who have day-to-day responsibility for managing the Progressive Building Society.</p> <p>Throughout this document, the term ‘Senior Management’ refers to the Chief Executive, Deputy Chief Executive and Finance Director, Head of Retail Credit & Society Secretary, Senior Manager Prudential Risk, Senior Manager Conduct Risk, Head of Personnel & Administration, Treasury Manager, Operations Director and Chief Information Officer.</p>
Head of Internal Audit	Head of Internal Audit describes the person in a senior position responsible for effectively managing the internal audit activity. The specific job title of the Chief Audit Executive referred to in various guidance and standards is the Head of Internal Audit within Progressive Building Society.

This document has been prepared only for Progressive Building Society and solely for the purpose and on the terms agreed with Progressive Building Society in our agreement dated 15 December 2014. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

© 2015 PricewaterhouseCoopers LLP. All rights reserved. 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.