



The Cumberland

Internal Audit Charter

November 2024

Introduction

The Global Internal Audit Standards' ('GIAS') gives a purpose statement of internal auditing as 'Internal auditing strengthens the organization'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.

Internal auditing enhances the organization'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 the public interest'.

Our Purpose

Internal Audit's primary purpose 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 GIAS and the Chartered Institute of Internal Auditors' Combined Internal Audit Code of Practice ('IACP') within the Internal Professional Practice Framework ('IPPF').. As such, Internal Audit is committed to adhering to the GIAS with any material non-conformance being disclosed to the Audit Committee. Internal Audit also aims to follow the voluntary IACP as far as possible.

Mandate and Positioning

- The Head of Internal Audit holds the SMF 5 designation within the regulatory framework, reports functionally to the Chairman of the Cumberland Audit Committee (a permanent Board committee) and administratively to the Chief Executive with the right of direct access at any time to the Chair and members of the Audit Committee, Chair of the Board and external auditors.
- The Head of Internal Audit has 'private session' meetings with the Audit Committee.
- 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).

- Where the tenure of the Head of Internal Audit exceeds seven years, the Audit Committee discuss annually the Head of Internal Audit's independence and objectivity.
- 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 act with integrity, 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 Cumberland 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 Cumberland 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 IACP which recommends that Internal Audit considers the following areas:

- Purpose, strategy and business model.
- Organisational culture.
- Internal governance.
- The setting of, and adherence to, the risks the entity is willing to accept (risk appetite).
- Key corporate and external events.
- Capital and liquidity risks.
- Risks of poor customer treatment, giving rise to conduct or reputational 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 control functions.
- 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 Cumberland may have taken place.
- also include assurance and project work, in accordance with Executive Director, Audit Committee or regulatory requests.
- report to Audit Committee, as appropriate, a review of any post-mortem and 'lessons learned' analysis if a significant adverse event has occurred. 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 Audit Committee:
 - its opinion as to the overall adequacy and effectiveness of the governance, and risk management and control framework of the Cumberland,
 - its conclusions on whether the organisation's risk appetite framework is being adhered to,
 - an analysis of themes and trends emerging from Internal Audit work and their impact on the Cumberland's risk profile.
 - The scope of work performed by Internal Audit, the nature and timing of Internal Audit reports, its independence and the adequacy of Internal Audit resources to enable the Audit Committee to evaluate the performance of Internal Audit.

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.
- Submit for approval by Audit Committee the following:
 - Its 6 monthly Internal Audit Plan (half yearly) and external resource budget.
 - This Internal Audit Charter (annually).
 - Its Independence and Objectivity Policy (annually).
 - Major changes to its methodology (for example a change to audit ratings).

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 Internal Audit plan which is updated and discussed with Audit Committee on a six-monthly basis. 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 Cumberland. 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 GIAS and IACP 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.

Quality Assurance and Improvement Programme

Internal Audit will maintain a quality assurance and improvement programme (QAIP) that will include:

- an annual evaluation of the Internal Audit Department conformance against the GIAS and CIACP.
- an assessment of the efficiency and effectiveness of the Internal Audit Department and identification of opportunities for improvement.
- The outcome of this exercise will be reported annually to Audit Committee together with any resulting actions and progress made to complete them.

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.