

FURNESS GROUP
INTERNAL AUDIT CHARTER

CONTENTS

PRINCIPLES - OVERVIEW 2

PRINCIPLES - DETAIL..... 3

ANNUAL CLIENT SATISFACTION QUESTIONNAIRE 8

SUGGESTED PERFORMANCE MEASURES..... 10

PRINCIPLES - OVERVIEW

Listed below are the core principles of the Internal Audit Service.

- 1. Internal Audit is an independent function established by the Board and reports to the Audit Committee to test and report on governance, risk and internal control.**
- 2. Internal Audit operates as a partner to the business whilst maintaining an appropriate level of independence to be able to provide feedback over the execution of Furness Group strategic business objectives.**
- 3. Internal Audit operates under the authority, and on behalf, of the Furness Group Board and is permitted access to all data, locations, properties and staff required for fulfilment of its responsibilities.**
- 4. Internal Audit is accountable to the Audit Committee and Furness Group Board. Internal Audit has a direct reporting line to the Chair of the Audit Committee and for administrative purposes to the CEO and Company Secretary on a day-to-day basis.**
- 5. Internal Audit's scope of work includes coverage of significant risks impacting the realisation of strategic goals and objectives.**
- 6. Internal Audit uses a risk based, integrated audit approach to provide reports and value added recommendations for improved controls. Internal Audit provides the Furness Group Board and the Audit Committee with an annual report.**
- 7. Internal Audit develops and agrees its audit plan annually with the Chair of the Audit Committee for approval by the Audit Committee.**
- 8. Internal Audit maintains professional audit staff with sufficient knowledge, skills and experience and adopts robust methodologies and quality processes.**
- 9. Internal Audit communicates regularly and works closely with business management, risk and compliance functions and external auditors to provide optimal audit coverage in the most efficient and cost effective manner.**
- 10. The operations of Internal Audit are underpinned by its core values.**

PRINCIPLES - DETAIL

Internal Audit is an independent function established by the Board and reports to the Audit Committee to test and report on governance, risk and internal control.

The primary role of Internal Audit is to help the Board and Executive Management to protect the assets, reputation and sustainability of the organisation.

Internal Audit's mission is to provide an independent assessment of the design and effectiveness of internal controls over the risks to the Furness Group's (the "Group") business performance. In carrying out this work Internal Audit will challenge Executive Management to improve the effectiveness of governance, risk management and internal controls, by providing specific recommendations for improving the governance, risk and control framework.

Internal Audit is a component of the Group's three lines of defence model. Within this model, business line management (the first line) are responsible for developing and implementing controls to manage business risks whilst the risk and compliance functions (the second line of defence) have responsibility for translating the business risk appetite into methodologies and policies to support and monitor management's control of risk. Internal Audit operates as the third line of defence. Internal Audit, as an independent function, provides management with feedback on the operation of the first and second lines and is an essential part of the corporate governance structure of the Group.

Internal Audit has no operational responsibility or authority over any of the activities they audit. Accordingly, they must not develop or install systems or processes, prepare records, or engage in any other activity which would normally be audited. Those working within Internal Audit are not permitted to perform day-to-day control procedures or take operational responsibility for any part of business operations outside Internal Audit. Management is responsible for the establishment and on-going operation of the internal control system. The Audit Committee will review the scope and nature of the work performed by Internal Audit to confirm its independence.

Internal Audit's responsibilities are established by the Furness Group Board and approved by the Audit Committee. The Audit Committee has been appointed by the Furness Group Board from among its members and has certain responsibilities specified by the Board in relation to Internal Audit. The Furness Group Board will be informed by the Audit Committee of any major developments in relation to these responsibilities and remains ultimately responsible for the decisions of the Audit Committee.

Internal Audit operates as a partner to the business whilst maintaining an appropriate level of independence to be able to provide feedback over the execution of Furness Group strategic business objectives.

Internal Audit seeks involvement and buy-in from the business in the planning process and undertakes a risk focused programme of audit work to provide value added recommendations which improve operating effectiveness as well as controlling risks more effectively. Internal Audit maintains active communication with the business for ongoing risk identification and ensuring Internal Audit involvement with key business initiatives.

Whilst partnering with the business, Internal Audit will retain its independence in providing feedback over key business risks.

Internal Audit operates under the authority, and on behalf, of the Furness Group Board and is permitted access to all data, locations, properties and staff required for fulfilment of its responsibilities.

Authority is granted for full, free, and unrestricted access to any and all of the Group entities' data, locations, properties and staff relevant to any function or area under assessment (including where such information is held by third parties). Internal Audit shall also have free and unrestricted access to the Chairman of the Furness Group Board, and the Chairman of the Audit Committee.

Internal Audit also has the right to attend and observe all or part of Executive Committee meetings and any other key management decision making fora.

Internal Audit will ensure confidentiality is maintained in respect of all information and records obtained in the course of performing its duties.

Internal Audit is accountable to the Audit Committee and Furness Group Board and reports. Internal Audit has a direct reporting line to the Chair of the Audit Committee and for administrative purposes to the CEO and Company Secretary on a day-to-day basis.

Internal Audit provides assessments of the internal controls impacting the realisation of the Group's business objectives, taking into consideration risks and periodically provides information on the status and results of the audit plan and the sufficiency of Internal Audit resources. Internal Audit has a direct reporting line to the Chair of the Audit Committee and for administrative purposes to the CEO and Company Secretary on a day-to-day basis.

The Audit Committee supervises activities on behalf of the Furness Group Board with respect to the role and functioning of Internal Audit, appraising the performance as well as being responsible for appointing the outsourced Internal Audit partner firm and removing them from post.

Internal Audit's scope of work includes coverage of significant risks impacting the realisation of strategic goals and objectives.

The scope of Internal Audit is unrestricted.

In setting scope of work, Internal Audit takes into account business strategy and includes coverage of significant risks which impact on the realisation of the Group's strategic business objectives, including current and emerging risks.

Internal Audit will form an independent view based upon its own view of the structure of the organisation of whether the key risks to the Group have been identified, including emerging and systemic risks, and assess how effectively these risks are being managed. This encompasses the examination and evaluation of the Group's governance framework, risk management processes, including setting of and adherence to risk appetite, information presented to the Board and Executive Management for strategic and operational decision making, risk and control culture and systems of internal control in respect of regulatory compliance processes, risks of poor customer treatment, capital and liquidity risks and key corporate events.

Internal Audit uses a risk based, integrated audit approach to provide reports and value added recommendations for improved controls. Internal Audit provides the Furness Group Board and the Audit Committee with an annual report.

During the planning stage for each audit assignment Internal Audit liaises with business management to perform a risk assessment which involves identifying key risks which may impact on the achievement of the audit area's objectives and assessing the control framework to mitigate key risks identified. The identified internal controls are tested and evaluated. Value-added recommendations to address areas assessed where enhanced controls are required are discussed with management at the conclusion of each audit. A report is distributed to business management detailing audit results and recommendations. Copies of audit reports are provided by Internal Audit to the external auditors of the Group and supervisory bodies when appropriate.

Internal Audit performs integrated and specific risk audits to address relevant risks which include, among others, financial, operational, IT and compliance risks.

Internal Audit provides the Furness Group Board and the Audit Committee with an annual report on the adequacy and effectiveness of the Group's systems of internal control which comprises a summary of internal audit activity and key risk issues and a status report on the delivery of the audit plan.

Internal Audit develops and agrees its audit plan annually with the Chair of the Audit Committee for approval by the Audit Committee.

Internal Audit annually prepares a group-wide audit plan and recommends the required number of days to deliver the plan. This enables Internal Audit to provide a periodic assessment of the internal controls over the risks to the Group's business objectives, taking into consideration risks, as well as internal auditing regulations.

Internal Audit drafts its audit plan and consults with the executive team, risk and compliance functions to ensure Internal Audit is informed in a timely manner regarding developments in the business, operations, emerging risks and issues that will impact on the audit plan.

The Internal Audit Plan shall be reviewed and approved by the Audit Committee. The Audit Committee shall satisfy itself that the Plan addresses controls covering all key business risks, on an appropriate frequency. Internal Audit regularly reviews the Internal Audit Plan to ensure that it takes account of new and emerging risks.

Any material changes to the Internal Audit plan will be presented for approval to the Audit Committee. The plan should have the flexibility to deal with unplanned events to allow Internal Audit to prioritise emerging risks. Changes to the audit plan will be considered in light of Internal Audit's ongoing assessment of risk.

Internal Audit may also perform retrospective or "lessons learned" reviews following any significant adverse events within the business. Where performed, such audits will consider the role of the both the first and second lines of defence within the business, as well as Internal Audit's own role. Such reviews will be approved by the Audit Committee before commencement.

Internal Audit maintains professional audit staff with sufficient knowledge, skills and experience and adopts a robust approach and quality processes.

Internal Audit maintains professional audit staff with sufficient knowledge, skills and experience, which includes adopting a proportionate approach to organisations of all sizes. Internal Audit develops and maintains the infrastructure (organisational structure, budgetary control, IT tools, training & career development and means for knowledge sharing) necessary to meet the objectives of the Internal Audit function.

The Society reserves the right to instruct other third party professional firms to perform audit work if the current audit partner cannot provide sufficiently skilled resource in a timely manner.

Internal Audit will operate in accordance with the Chartered Institute of Internal Auditors (“CIIA”) Recommendations on “Effective Internal Audit in the Financial Services sector”.

Internal Audit has a responsibility to conduct themselves so that their integrity, objectivity, confidentiality and competency are not open to question. Standards of professional behaviour are based upon the Code of Ethics issued by the CIIA – UK and Ireland. Internal auditors will:

- Exercise honesty, objectivity and diligence in the performance of their duties and responsibilities;
- Not knowingly be a party to any illegal or improper activity;
- Promote appropriate ethics and values within the organisation;
- Refrain from entering into any activity which may be in conflict with the interest of the organisation or which would prejudice their ability to objectively carry out their duties;
- Decline to accept anything that may impair or be presumed to impair their professional judgment;
- Be prudent in the use of information acquired in the course of their duties and not use confidential information for any personal gain or in a manner that knowingly would be detrimental to the welfare of the organisation;
- Use reasonable care to obtain sufficient, factual evidence to support the conclusions drawn and, in reporting, reveal such material facts known to them which, if not revealed, could distort the report of the results of operations under review or conceal an unlawful practice; and
- Engage only in those projects where they have the necessary knowledge, skill and experience.

Internal Audit monitors and reports on key performance measures to the CEO and Company Secretary. In addition, Internal Audit will report such information on a periodic basis to the Audit Committee.

On an annual basis, Internal Audit will request feedback from Executive Director level stakeholders across the Society on its performance using the Annual Client Satisfaction Questionnaire detailed on page 8 of this Charter. Results of the Questionnaires will be provided to the Audit Committee on an annual basis.

Internal Audit communicates regularly and works closely with business management, risk and compliance functions and external auditors to provide optimal audit coverage in the most efficient and cost effective manner.

Internal Audit liaises regularly, co-ordinates with, and takes account of the work of the Risk and Compliance functions. Where reliance can be placed on their work Internal Audit will adjust and focus tasks accordingly to minimise duplications in assurance activities. However, in evaluating the effectiveness of internal controls and risk management processes, in no circumstances will Internal Audit rely exclusively on the work of Risk Management, Compliance or Finance, and instead Internal Audit will include within scope an assessment of the adequacy and effectiveness of the Risk Management, Compliance and Finance functions.

The Group's external auditors provide specific audit services for the Group resulting in opinions on the annual accounts. In the Group's annual reporting they have to express an opinion on management's assessment of the effectiveness of internal control. To ensure proper planning regarding audit coverage, prevent unnecessary duplication of work and share relevant information there is close co-operation and open and free communication between Internal Audit and external audit. Where requested by the Furness Group and subject to the agreement of "Hold Harmless" letters, Internal Audit will provide copies of Final reports to external audit.

The operations of Internal Audit are underpinned by its core values.

In the way that Internal Audit staff approach their responsibilities, decisions and interactions, there are four core values that contribute most significantly to Internal Audit's success. These are:

- **Partnership:** We partner with the business to provide feedback which supports the Group's ability to deliver its strategic goals.
- **Independence:** We are objective and independent in our views;
- **Quality:** We have a performance driven culture of excellence, our approach is robust and we act with integrity.
- **Solution oriented:** We are focused on being constructive and advising on effective solutions that improve risk management and control within the Group.

INTERNAL AUDIT SERVICE

ANNUAL CLIENT SATISFACTION QUESTIONNAIRE

Aspects of the Internal Audits completed across your business area	Your Response				
	Very Good	Good	Satisfactory	Needs Improvement	Unsatisfactory
Team					
1. The team(s) demonstrated knowledge and understanding of your business areas being audited.					
2. The team(s) acted in a professional and courteous manner.					
Communications					
1. The team(s) were accessible and contactable if required.					
2. The terms of reference clearly stated the objectives of the internal audit(s) completed across your business area.					
3. You were given the opportunity to input to the terms of reference and request specific coverage if required for reviews delivered in your business area.					
4. Your specific requests were taken into consideration during the audit(s).					
Deliverables					
1. All of the findings raised in the final report(s) were valid and had been discussed and agreed with you (or your nominated point of contact) on a timely basis at the audit exit and close meetings.					
2. The Priority ratings of the recommendations were appropriate and in context for areas under review.					
3. Where appropriate, you were informed of additional findings after the fieldwork had finished for any reviews completed in your business area.					

Business Benefit					
1. The internal audit conclusions and recommendations have added value to your business area.					
2. The audits have identified issues that you were not previously aware of.					
3. The recommendations were practical and implementable.					
Deadlines					
1. Were the final report(s) issued on a timely basis.					

You are invited to make below any additional comments or suggestions you consider appropriate with a view to maximising the benefit derived from Internal Audit.

Signed

Dated

Please return this Questionnaire by [Date to be inserted] to Martin McDonagh and Sarn Saundh, Deloitte.

SUGGESTED PERFORMANCE MEASURES

Indicator	Target
<p>Annual Audit Plan:</p> <p>Draft presented to Audit Committee</p>	By November Audit Committee each year.
<p>Audit Assignments:</p> <p>Draft Terms of Reference to be issued</p> <p>Final Terms of Reference to be issued</p> <p>Draft reports to be issued</p> <p>Final reports issued</p>	<p>At least 10 working days prior to the commencement of the audit.</p> <p>At least 5 working days prior to the commencement of the audit.</p> <p>Within 10 working days of completion of audit fieldwork or close out meeting.</p> <p>Within 10 working days of receipt of management response.</p>
<p>Follow up of Recommendations:</p> <p>High and Medium graded recommendations followed up with the period specified in Audit Reports.</p>	100%
<p>Annual Client Satisfaction Questionnaire:</p> <p>Responses satisfactory and above</p>	85%
<p>Annual Internal Audit Report:</p> <p>Draft to CEO and Company Secretary</p>	Within 6 weeks of the end of the financial year.