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## UNITED TRUST BANK INTERNAL AUDIT CHARTER

### Introduction

The Internal Audit (IA) function is established by the Audit Committee, a sub-committee of the Board. The IA function's responsibilities are defined by the Audit Committee as part of their oversight role. The operation of IA is governed by this document, the IA Charter.

### Mission Statement

The purpose of the IA function is to provide independent, objective assurance, advice and oversight activity designed to add value and improve operations, solely as the third line of defence in the Bank's risk management framework. IA assists the Bank in accomplishing its objectives by bringing a risk-based, systematic and disciplined approach to evaluate and improve the effectiveness of the Bank's risk management, control, and governance processes.

### Core Values, Goals and Objectives

To accomplish our mission, IA has established the following core values and goals as strategies:

#### Core Values

- People – Hire and continuously train our people.
- Technology – Employ quality technological tools and techniques that are both commensurate with, and help to progress the stage of development of the Bank.
- Customer Service – Deliver high quality customer/stakeholder value and satisfaction.
- Control Environment – Promote an enterprise wide control environment to sustainably support the Bank's on-going growth and nurture integrity and ethics in the Bank's operating environment.

#### Goals and Strategies

- Develop and maintain an appropriate audit framework which assures audit effectiveness.
- Provide assurance to support key enterprise systems development and process improvement initiatives within the Bank.
- Develop an appropriate Annual Audit Plan.

- Perform scheduled audits and provide ad hoc assurance as required by the Bank and agreed by the Audit Committee.
- Report audit results to Senior Management and the Board's Audit Committee.
- Track and perform follow up reviews on audit recommendations to facilitate effective and timely mitigation of risks for issues identified in audits.

### **Roles and Responsibilities**

IA's primary role is to help the Board and Management protect the assets, reputation and sustainability of the Bank, and achieve the Bank's objectives. IA does this by: assessing whether significant risks are identified and appropriately reported by the business and the Risk function to the Board and Management; assessing whether those risks are adequately controlled; and, by challenging Senior Management to improve the effectiveness of governance, risk management and internal controls.

IA therefore supports the Board in their statutory responsibility for ensuring the effectiveness of, and reporting on, the Bank's system of corporate governance, in particular for assessing design, implementation and operating effectiveness of internal controls. The Head of Internal Audit (HIA) is responsible for the effective review of key aspects set out in the 'Scope' section.

It is the responsibility of Management (all staff with managerial roles and responsibilities) to identify, understand and manage risks effectively, including taking appropriate and timely action in response to IA findings. It is also Management's responsibility to maintain a sound system of internal control and improvement of the same. The existence of the IA function does not relieve them of this responsibility.

Management is responsible for fraud prevention and detection. As IA completes its work programmes, it will analyse and assess any evidence implying the existence of fraud and weakness in internal control which would permit fraud to occur or would impede its detection.

### **Accountability of the Head of Internal Audit**

The HIA is responsible for establishing and maintained adequate internal organisation of the IA function which is in compliance with relevant external regulations and capable of effectively fulfilling its objectives. This includes: maintenance of IA independence and adherence to the Institute of Internal Auditors (IIA) Code of Ethics comprising integrity, objectivity, competency and confidentiality, and mandatory guidance (see 'Professionalism' section); and, the management of performance of any third party provider of resource engaged in IA work. It also includes evaluating that the IA team has the skills and experience commensurate with the Bank's risks. Achieving this may entail training, recruitment, internal secondments and third party co-sourcing.

## **Authority**

The IA activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the Bank's records, data, management information, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist IA in fulfilling its roles and responsibilities. IA will also have free and unrestricted access to the Board, Audit Committee and decision making fora.

## **Scope**

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the: design, adequacy and effectiveness of the Bank's governance; risk management; internal control systems and processes (including process outcomes); information systems; and, the quality of performance in carrying out assigned responsibilities to achieve the Bank's defined goals and objectives.

IA's scope includes, but is not restricted to, the review and challenge of:

- Internal governance.
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information.
- Processes and controls supporting strategic and operational decision making and the adequacy and fairness of information presented to the Board and Management.
- Risk, Compliance and Finance functions and systems. IA assesses both the processes followed by the first and second lines of defence and the quality of their work.
- Setting and embedding of, and adherence to, risk appetites.
- Risk and control culture of the Bank.
- Processes and controls to manage and maintain adequate capital and liquidity.
- Compliance with significant policies, plans, procedures, laws, and regulations which could have a significant impact on operations. This includes assessment of the risk of poor customer treatment and the outcomes of processes and controls.
- Safeguarding of assets and protection against fraud.
- Effectiveness and efficiency of operations and employment of resources.
- Consistency of operations or programmes with established objectives and goals and effective performance.

- Key corporate events and material change projects, such as selection and implementation of new or upgraded systems. This involves evaluation of whether key risks are being adequately addressed and reported. IA is not involved in management decision making and does not undertake work that impacts its independence.

This work may involve periodic testing of transactions and best practice reviews.

IA is responsible for evaluating all processes ('audit universe') of the entity. IA may evaluate specific operations and projects at the request of the Audit Committee or Management, as appropriate.

It also assists the Audit Committee in evaluating the quality of performance of external auditors and maintains proper degree of coordination with external audit, as requested.

### **Organisation**

The HIA reports functionally to the Audit Committee and administratively to the Chief Executive Officer. The HIA has access to the Chair of the Board.

The Audit Committee Chair will approve all decisions regarding the appointment, performance evaluation and removal of the HIA. They will also ensure that the IA function is adequately resourced and will approve the IA function budget. The HIA's remuneration will be recommended by the Audit Committee Chair and approved by the Bank's Remuneration Committee. This remuneration and that of other IA staff is structured in a manner such that it avoids conflicts of interest, does not impair their independence and objectivity and is not directly linked to the short term performance of the Bank.

The HIA will communicate and interact directly with the Audit Committee, including in executive sessions and between Audit Committee meetings as appropriate.

### **Independence and objectivity**

The IA function will remain free from interference by any element in the Bank, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. If the HIA determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal Auditors will have no direct operational responsibility or authority over any of the activities audited, although given the relatively small size of the Bank, internal auditors may occasionally undertake special projects or other verification or checking work in support of the Senior Management and business units. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's judgment.

IA staff will not review a business area or function where they have had recent management or operational responsibilities or are in any other way conflicted. Should the HIA have or expect to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The HIA will confirm to the Audit Committee, at least annually, the organisational independence of the IA function.

The HIA will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work and/or communicating results.

### **Internal audit plan**

At least annually, the HIA will submit to the Audit Committee an IA plan for review and approval, including risk assessment criteria. The IA plan will include timing as well as budget and resource considerations for the next financial/calendar year. The HIA will communicate the impact of resource limitations and significant interim changes to Senior Management and the Audit Committee.

The IA plan will be on a 3 year rolling basis. It will be developed based on a prioritisation of the audit universe using a risk-based methodology based on its own risk assessment of the audit universe, and including input of Senior Management and the Audit Committee. Prior to submission to the Audit Committee for approval, the plan may be discussed with appropriate Senior Management. Any significant deviation from the approved IA plan will be communicated through the periodic activity reporting process.

### **Reporting and monitoring**

The Head of IA will attend the Audit Committee and provide written and oral reports on the adequacy and effectiveness of the Bank's risk management, internal control and governance, and on the status of and results of the annual audit work plan and sufficiency and performance of IA resources.

The IA function is responsible for reporting to the Audit Committee and to Senior Management significant risk exposures and control and governance issues, themes, independent views of Management's risk reporting, and areas of remediation delays as well as other matters needed or requested by the Audit Committee. This includes fraud risks, governance issues, and other matters needed or requested by the Audit Committee.

Each year, IA shall report to the Audit Committee in the context of its opinion on the overall governance and risk and control framework of the Bank and whether its risk appetite is defined and adhered to, together with an analysis of themes and trends emerging from IA work and their impact on the Bank's risk profile.

A written report will be prepared and issued by the HIA or designee following the conclusion of each IA engagement and will be distributed as appropriate. A copy of each report will be forwarded to the CEO, Chief Financial Officer (CFO), Chief Risk Officer (CRO), Chief Commercial Officer (CCO) and Chief Operating Officer (COO). IA results will also be communicated to the Audit Committee through the preparation of quarterly reports.

The IA reports may include Management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The IA function will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues tracker until cleared.

#### **Use of Co-Source Provider and Other External Impacts**

IA may engage co-source providers having given consideration to the need for a wide range of auditing skill sets in a small team. The co-source relationship provides availability of professional staff and special expertise that is not deemed economic to maintain within the audit function. The HIA maintains oversight of planning and reporting for all IA reviews and maintains a quality assurance and improvement programme, as noted below, which includes co-source reviews.

#### **Relations with Other Control Functions, the External Auditor and regulators**

IA liaises with the external auditor and other control functions periodically to share knowledge and discuss key aspects of risk management, compliance, internal control and governance.

IA maintains an open, honest and constructive communication with relevant regulators.

#### **Professionalism**

The IA function will govern itself by aiming to adhere to the IIA's mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing (including their ten core principles), and the UK IIA Financial Services Code (FS Code). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the IA activity's performance.

In addition, the IA function will adhere to the Bank's relevant policies and procedures and will maintain and adhere to the IA activity's standard operating procedures manual.

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

The IA function will maintain a quality assurance and improvement programme that covers key aspects of IA activity. The programme will include an evaluation of the IA activity's conformance with the IIA's mandatory guidance. The programme also assesses the efficiency and effectiveness of IA activity and identifies improvement opportunities.

The HIA will communicate to the Audit Committee on the IA activity's quality assurance and improvement programme, including results of ongoing internal assessments.

The IA function is to be subject to an independent and objective external assessment at least every five years.

### **Audit Charter Governance**

The HIA is responsible also for providing periodically a self-assessment on the IA activity as regards its consistency with the Audit Charter (purpose, authority, responsibility).

This Charter is the responsibility of the HIA. It is reviewed by the HIA and presented to the Audit Committee for approval annually. Any changes to the Charter are approved by the Audit Committee.

*Approved by the Audit Committee – June 2021*

*Next review – June 2022*