UKAR Internal Audit Terms of Reference (ToR)

United Kingdom: UK Asset Resolution (UKAR)

https://elischolar.library.yale.edu/ypfs-documents2/3287
Internal Audit Terms of Reference

Introduction

1. The Internal Audit Terms of Reference (ToR) describes the framework within which the Internal Audit Service is delivered. It is intended to act as a guide for directors and staff throughout the business and is also publicly available on the UKAR website.

Definition of Internal Auditing

2. Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation achieve its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (Definition of Internal Auditing, Chartered Institute of Internal Auditors, 2012).

Objective of Internal Audit

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

4. Internal Audit’s key objective is to provide reliable, valued and timely assessment to the Board and Executive Management on the effectiveness of the system of internal controls mitigating current and evolving key risks and in so doing assist the Group to enhance the effectiveness of the risk management culture within the organisation.

5. Internal Audit’s work also helps the Board and Executive Management assess whether the organisation’s processes and actions are in line with its values, ethics, risk appetite, risk culture and other policies.

Responsibilities for Internal Control

6. The Directors of the UK Asset Resolution Group (“UKAR”) (comprising Bradford & Bingley plc (“B&B”) and NRAM Limited (“NRAM”)) have a statutory responsibility to ensure that there are adequate systems of control, inspection and reporting.

7. The Executive and Management are charged by the UKAR Board with the responsibility for maintaining adequate systems of control and reviewing the effectiveness of those controls.

8. Internal Audit provides independent, objective assurance to the Board through the Audit Committee and the Executive. This helps to ensure that adequate, effective and sustainable control processes are in operation to manage all material risks across the Group and contributes to the continuous improvement of the risk management and control process.
Scope of the Internal Audit Service

9. Internal Audit’s scope is unrestricted. All the business activities of UKAR are included in the scope of Internal Audit’s responsibility. This includes those of UKAR, B&B and NRAM, including those outsourced to third parties, and they are subject to regular and appropriate Internal Audit review in accordance with Internal Audit’s risk based Audit Plan derived from the Audit Needs Assessment.

Reporting

10. Internal Audit produces a formal, Annual Opinion on the adequacy, effectiveness and sustainability of the control processes to the Audit Committee for submission to the Board. This also supports Turnbull requirements.

11. To provide this Opinion, Internal Audit:

11.1 Determines Audit Needs by reference to the Group’s Strategic Objectives and Business Plans;

11.2 Identifies and assesses the risks around those processes which operate to achieve the objectives;

11.3 Evaluates the adequacy, effectiveness and sustainability of controls, both financial and non-financial, around those points in the processes which, were they to fail, would have a material impact on the Group;

11.4 Reviews the adequacy and effectiveness of the control processes in place covering significant change projects and, based on an assessment of risk, reviews the adequacy of the underlying control framework being implemented;

11.5 Considers the controls that Management have in place over key outsourced relationships, including Computershare Loan Services (“CLS”), and performs assurance activities at those third parties as appropriate;

11.6 Reviews the appropriateness of Management action in relation to risks where the current mitigation controls are considered to be inadequate;

11.7 Considers the controls in place to mitigate risks of poor customer outcomes; and

11.8 Considers Management’s reporting on the risk management and control culture of the organisation.

As with all risk types, assessment of internal controls to mitigate fraud risk are included within Internal Audit’s scope. Therefore, Internal Audit procedures are designed with fraud risk in mind, but should not be relied upon to detect fraud; it is Management’s responsibility to design systems of control to prevent and detect fraud.
12. Internal Audit prepares an Annual Audit Plan that is approved by the Audit Committee. This Plan is flexible in so far as it is updated to reflect any changes to the organisation’s risk profile during the year, and any resultant amendments to the Plan are formally approved by the Audit Committee, which meets at least three times a year.

13. During the year, Internal Audit reports on a monthly basis to the Board (via the Chief Executive Officer’s Report) and to each Audit Committee on the operation of the control processes and Management’s progress in addressing issues identified. All outstanding issues and their status are reported to the Executive Risk Committee. In addition, every month Internal Audit reports the progress of all Management actions to the individual Directors responsible for resolution via the Monthly Control Report.

14. Reports to the Audit Committee are drawn from the results of individual audits in the period. Internal Audit reports the issues emerging from, and the findings of, each audit to relevant Management and obtains their commitment to undertake appropriate remedial action.

Co-ordination with other assurance / oversight providers

15. Internal Audit’s role and functions are distinct from external regulating authorities and other assurance and oversight providers. However, Internal Audit will work with other such organisations to ensure that assurance from both internal and external resources is provided in the most cost-effective manner and helps to ensure that the Board and Executive are provided with a comprehensive assessment of the overall control environment.

16. Types of co-ordination might include:

   16.1 Consulting External Audit, Compliance and Operational Risk when preparing the annual Internal Audit Plan;

   16.2 Providing Final Internal Audit Reports to External Audit and Compliance;

   16.3 Providing access to Internal Audit files and working papers; and

   16.4 Reviewing CLS Internal Audit Plans and obtaining updates on status / audit findings through the monthly Risk, Audit and Compliance meetings with CLS.

Consulting work

17. Internal Audit acts as a point of reference for risk and control issues, providing ad hoc advice to Management and carrying out special reviews and investigations where appropriate. Advice will only be provided where it does not impact on the required independence of the Audit function.
Access

18. Internal Audit derives its authority from the Board and Audit Committee who enable them to have unrestricted access to all records, systems, documents, property and staff as required in the performance of its work.

Independence and Objectivity

19. Internal Audit remains independent of the activities that it audits to ensure objective judgement.

20. The Head of Internal Audit proactively prevents impairments to Internal Audit’s independence and objectivity by:
   20.1 Ensuring the Internal Audit team takes no responsibility for the design and implementation or operation of controls;
   20.2 Audit team members attending, but not being a member of, Executive meetings;
   20.3 Not auditing operations that Internal Audit have been responsible for in the prior 12 months; and
   20.4 Addressing any personal conflicts of interest that might arise through using alternative team members.

21. Any events that arise during the delivery of audits which might impair independence or objectivity such as scope limitation, restrictions on access to records or staff, or resource limitations will be reported to the Audit Committee Chairman and subsequently the Audit Committee.

22. The Head of Internal Audit has a direct reporting line to the Chairman of the Audit Committee and recourse directly to the Chief Executive Officer.

23. The appointment or termination of the appointment of the Head of Internal Audit must be approved by the Audit Committee and the FCA under the Approved Person Regime.

24. On an annual basis, within the Internal Audit Annual Opinion, the Head of Internal Audit will confirm the ongoing independence and objectivity of the Internal Audit Service.

Internal Audit Resourcing and Budget

25. Internal Audit’s resourcing and budget is approved by the Audit Committee each year. The Internal Audit Service is currently provided by a seconded Head of Internal Audit supported by outsourced resources. The Head of Internal Audit is responsible for providing adequate oversight of the outsourced resources.
Standards

26. Internal Audit adheres to International Standards on Internal Auditing and to standards of best professional practice as published by the major accountancy bodies, Chartered Institute of Internal Auditors and the Information Systems Audit & Control Association. Internal Audit also adheres to the recommendations set out by the Committee on Internal Audit Guidance for Financial Services (July 2013) as appropriate to the UKAR Group.

27. An independent Quality Risk Management function overseen by a suitably qualified professional regularly reviews the work of Internal Audit and provides a report to the Internal Audit Steering Committee which is chaired by the Chief Executive Officer. This report provides assurance that the Internal Audit function is adhering to the International Standards on Auditing and to standards of best professional practice as published by the major accountancy bodies and Chartered Institute of Internal Auditors. Results of Quality assessments are also presented to the Audit Committee on an appropriate basis.

28. In line with good practice, the Audit Committee will consider the need for an independent external review of the Internal Audit service every five years. The outcome of the review will be reported to Audit Committee.

End