

Group Internal Audit Charter

(Terms of Reference)

Approved by the Group Audit Committee
18th May 2016

Bank of Ireland Information Classification Green

Bank of Ireland 

For small steps, for big steps, for life

Group Internal Audit

Charter

1. Purpose

As the third line of defence within the Group's Risk Management Framework, Group Internal Audit (GIA) provides independent, reasonable assurance to its key stakeholders on the effectiveness of the Group's risk management and internal control framework. GIA seeks to positively influence risk management standards, ensure identification and remediation of issues and sharing of lessons learned for the on-going benefit of the Group and its key stakeholders.

2. Role

The role of GIA is to understand the Group's key risks and to examine and evaluate the adequacy and effectiveness of the systems of risk management and internal control, as operated by the Group, in order to provide reasonable assurance to the Group Audit Committee (GAC), Court Risk Committee, subsidiary audit and risk committees, as relevant, management and other interested parties (including the regulators and external auditors) that the Group's key risks are being appropriately and effectively managed.

GIA's role in the provision of independent assurance on the adequacy and effectiveness of the Group's risk management and internal control framework operates on the basis that management, as the first line of defence, has primary responsibility and accountability for effective risk management, including the management of fraud risk.

While maintaining its independence, GIA may also provide consulting advice as required on risk management and control issues through, for example, attendance at steering committees or workshops.

3. Scope

GIA's mandate covers all of the Group's activities, including services provided by third parties, subject to the right to audit. Assurance activities will be weighted towards determining the effectiveness of the systems of risk management and internal control over the more significant risks arising from the Group's activities.

4. Independence

GIA's independence is assured by the authority vested in it by the GAC and GIA's activity¹ will remain free from undue influence by management or other restrictions.

The Group Chief Internal Auditor (GCIA) manages the internal audit function and has a primary reporting line to the Chairman of the GAC, as well as a secondary reporting line to the Group CEO. The GAC has ultimate responsibility for approving the appointment, replacement or dismissal of the GCIA, setting goals and performance appraisal of the GCIA and approving the GCIA's remuneration.

¹GIA's activity includes matters of audit selection, scope, procedures, frequency, timing, and report content.

As independence is essential in ensuring the effectiveness of the internal audit function, internal auditors cannot themselves develop or implement systems or procedures or controls or engage in any other activity they normally would be expected to review. In addition, internal auditors are precluded from auditing specific operations that they had previously been responsible for, for a period of 1 year².

Independence will not be compromised where GIA personnel attend steering committees or workshops in order to advise on risk management and control, provided GIA is satisfied that, in the circumstances of the case, no conflict arises between GIA's role as independent assurance provider and adviser.

The GCIA provides an annual certificate of independence to the GAC and subsidiary audit committees, as relevant. In the event of any conflict or impairment of independence arising, the GCIA will inform the Chair of the GAC or the subsidiary audit committees as relevant, at the earliest possible opportunity.

5. Access

GIA staff have full, free, timely and unrestricted access to all of the Group's functions, records, assets, property and personnel necessary for the discharge of GIA's responsibilities. In addition, the GCIA has direct access to the Governor, the Group Chief Executive, the Chairs of the GAC and subsidiary audit committees, as required.

This right of access extends to organisations that carry out outsourced functions on behalf of the Group and also extends to businesses in which the Group has a substantial interest, subject to the Group's contractual right to audit.

6. Reporting

The outcome of each assignment will be formally reported to the head of the relevant business / function and other parties, as appropriate. Assignment reports are required to be objective, timely, risk focused and seek to add value, where feasible.

GIA will follow up and report on the adequacy and effectiveness of management actions to implement solutions to issues identified by GIA in the course of its assurance activities. It will provide updates on the status of open issues to the GAC and subsidiary audit committees, as relevant and provide specific information in relation to all Major issues and any Significant issues that are outstanding for longer than twelve months.

GIA will meet with the Group's regulators periodically and provide them with updates of the findings from completed assignments.

The GCIA will meet formally with the Group Executive and the Group Chief Executive on a quarterly basis, or more frequently where necessary. The GCIA, or nominated representative, is an attendee at GAC meetings, subsidiary audit and risk committee meetings, Court Risk Committee and Group Risk Policy Committee meetings. In addition, the GCIA has the right to attend Group Executive Committee meetings and any other Group committees or governance fora.

The GCIA will present formal updates to the GAC on a quarterly basis and to the Court Risk Committee and subsidiary audit and risk committees as required. At least once a year,

²Where co-sourcing or outsourcing is used, to avoid possible conflicts of interest, the co-source / outsource partner must ensure that a sufficient 'cooling-off' period (minimum of 12 months) has elapsed if the co-source / outsource partner carried out work in the area being reviewed in the Group.

the GCIA will meet the GAC and subsidiary audit committees, without the presence of management. In addition, the GCIA will meet with the Chair of the GAC on a regular basis and additionally, with the chairs of subsidiary audit committees, as required.

In accordance with the Terms of Reference of the GAC, the GCIA may, if necessary, request the Secretary of the GAC to convene a meeting of the committee.

7. Responsibilities

The GCIA is accountable to the GAC and subsidiary audit committees, as relevant, for GIA's programme of assurance activities, including the reporting of overall findings and any areas of concern resulting from such assurance activities.

GIA's assurance activities include a number of mandatory³ activities:

- a. assessing the firm's compliance with prudential regulations, including capital and liquidity requirements, as required by the relevant regulatory authority;
- b. reviewing mandatory compliance certificates and management attestations as required.

GIA adopts a risk based approach to the provision of assurance activities. Other assurance activities may include, but are not limited to, the following:

- c. reviewing the governance, risk management and internal control framework of the Group;
- d. reviewing and appraising the identification and management of risk, the effectiveness of the systems of control, including key management information used for strategic and operational decision making, and advising management on solutions for improvements, where appropriate;
- e. reviewing compliance with the Group's policies and procedures;
- f. reviewing work done by businesses to ensure compliance with relevant laws and regulations;
- g. reviewing the effectiveness of the Group's management of conduct risk, both in relation to customer outcomes and markets;
- h. reviewing the means of safeguarding assets, value and information, including information security and business continuity planning;
- i. reviewing the control environment of third parties (including joint ventures) where activities are conducted on behalf of the Group, subject to the Group's contractual right to audit;
- j. performing timely reviews of business programmes / governance over key corporate events, as appropriate, to ensure that risks are appropriately controlled and managed;
- k. reviewing the risk and control culture within the Group;

³Mandatory includes assurance activity mandated by external parties (e.g. regulators and government bodies)

- l. reviewing the adequacy and effectiveness of management actions to address issues identified by GIA, the external auditors and other internal and external regulatory review bodies;
- m. investigating, as appropriate, internal fraud, theft or other occasions where management has reservations concerning staff integrity; and
- n. liaising with the external auditors to ensure that internal and external audit work is complementary, thereby eliminating avoidable duplication and identifying any potential assurance gaps.

GIA is not relieved of responsibility to review areas of the Group which are subject to review by other Group functions and / or control self-assessment processes, but must assess the extent to which it can rely on the work of others in planning its assurance activities.

8. Planning

GIA's planned assurance activities are developed by assessing and prioritising the Group's higher risk areas. This is informed by a review of the Group's key priorities, risks and challenges and discussions with management, as well as members of the GAC and subsidiary audit committees, as relevant. The proposed areas of coverage are approved by the GAC and subsidiary audit committees, as relevant. The plans are flexible and reviewed quarterly to ensure the focus remains on areas of higher risk. Any material alterations to these plans require the approval of the GAC and subsidiary audit committees, as relevant.

9. Quality

On an annual basis, GIA's policies and procedures are reviewed and aligned with the professional standards of the Institute of Internal Auditors (IIA). Performance against standards is reviewed by formal reviews and sign-off of individual assignments by the Audit Managers / Partners and the operation of an independent quality assurance (QA) review programme which allows for both internal and external QAs and is aimed at ensuring the continuous improvement of GIA's assurance activities. Findings of the QA programme are shared with the GAC and subsidiary audit committees, and include an overview of QA results, key lessons learned and actions taken to address them.

GIA recognises the mandatory nature of the IIA's definition of Internal Auditing, code of ethics and standards. The GCIA will periodically discuss the mandatory aspects of the standards and the extent of the commitment to them with senior management, the GAC and subsidiary audit committees, as relevant.

GIA's audit methodology will be kept under review in light of new developments and evolving industry practice. GIA seeks to ensure that staff have the required capability to meet the requirements of its Charter but, in the event that a gap in the specific skills or expertise required for an assignment is identified, GIA will consider the option of co-sourcing / outsourcing.

In line with IIA standards, independent effectiveness reviews of GIA will be commissioned by the GAC at least every 5 years, subject to a maximum gap of 3 years between effectiveness reviews (whether completed by regulators or external third parties).

10. Integrity and Confidentiality

GIA staff are required to operate to the highest standards of integrity.

Any data or information obtained or received by GIA staff in the course of duty or otherwise will be treated as absolutely confidential.

11. GCIA's Obligations under the Central Bank (Supervision and Enforcement) Act, 2013

Section 38(2) of the Central Bank (Supervision and Enforcement) Act, 2013 specifies certain matters (e.g. that an offence under any provision of financial services legislation has been breached) that a person appointed to perform a pre-approval controlled function, such as the GCIA, should disclose to the CBol if deemed by the GCIA to be "of material assistance to the CBol". Should this occur, the following steps will be taken by the GCIA:

1. the GCIA will establish if the matter has been / will be disclosed by management to the CBol within a reasonable timeframe;
2. if the GCIA is not satisfied with step 1, the matter will be raised with the Chief Governance Risk Officer;
3. if the GCIA is not satisfied that the reporting obligations will be met on foot of step 2, the matter will be raised with the Group CEO;
4. if the GCIA is not satisfied that the reporting obligations will be met on foot of step 3, the matter will be raised with the Chair of the GAC; and
5. if the GCIA is not satisfied that the reporting obligations will be met on foot of step 4, the matter will be raised with the relevant contact in the CBol.

12. Approval

The GIA Charter will be reviewed on an annual basis and any changes proposed will be subject to approval by the GAC.