

INTERNAL AUDIT CHARTER

November 2024

OUR PURPOSE

The Institute of Internal Auditors (IIA) defines internal auditing as an independent, objective assurance and advisory service designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Internal Audit is an independent function within our Co-op. Our purpose is to provide professional, objective, third line assurance to the Board by working collaboratively with management; providing independent, risk-based assurance and insight on governance, risk and control. We do this to strengthen our Co-op's ability to protect and grow value and to champion what matters to our member-owners and the success of our Co-op.

OUR MANDATE

Our mandate defines Internal Audit's authority, role and responsibilities which are granted by the Board and outlined below:

Authority

Internal Audit has the authority to audit all parts of our Co-op and shall have full and unrestricted access to any of our Co-op's activities, data, physical properties and people.

Internal Audit has no responsibility or authority for any of the activities or operations audited. Internal Audit will not jeopardise its independence by developing or installing procedures, preparing records, or engaging in activities that would normally be reviewed by Internal Audit. Further, Internal Audit does not in any way relieve management of its responsibilities for maintaining effective controls.

Role

The role of Internal Audit is to provide independent assurance that our Co-op's risk management, governance and internal control processes are adequately designed and operating effectively. By connecting our assurance to what matters - our Co-op's strategy, plans and objectives - we can give confidence that our Co-op is set up for success and to deliver its objectives to protect and grow our business. To effectively fulfil this role, Internal Audit requires the support of both senior management and the Risk and Audit Committee.

Responsibilities

The Director of Risk and Internal Audit is responsible for:

- Developing an audit strategy taking into account the needs of our Co-op and the Board.

- Developing and maintaining a flexible plan for audit coverage using risk-based methodology, which is approved by the Risk and Audit Committee.
- Delivering the plan together with any additional special tasks that the Risk and Audit Committee or Board request.
- Ensuring that internal audit assignments are undertaken with due professional care, considering: the level of work required; the complexity and significance of the areas over which assurance is being given; the adequacy of governance, risk management and control processes; the probability of significant errors, fraud or non-compliance; and the cost of assurance in relation to potential benefits.
- Ensuring Internal Audit engage with management throughout the audit process in line with our methodology, namely: agreeing the scope of the audit at planning stage with management; providing regular updates to management throughout the audit fieldwork to ensure a 'no surprises approach'; carrying out a meeting at the end of fieldwork to discuss and agree findings; and sharing the draft audit report with management; and agreeing actions with action owners.
- Issuing timely reports to the Risk and Audit Committee, summarising audit conclusions and the progress of agreed actions arising from audit work.
- Utilising specialist third party resources to undertake specific assignments where such resources are not available internally. This will be arranged as appropriate but in particular will include audit assignments of Digital Technology and Data, and in relation to the Co-op's regulated entities, CISL and CFPL.
- Managing an effective whistleblowing service and escalating cases, where appropriate, to the Risk and Audit Committee.

The Risk and Audit Committee is responsible for:

- Championing Internal Audit to enable it to fulfil its purpose and pursue its strategy and objectives.
- Working with senior management to enable Internal Audit unrestricted access to the data, records, information, people and physical properties necessary to fulfil the internal audit mandate.
- Supporting the Director of Risk and Internal Audit through regular, direct communications.
- Ensuring the Director of Risk and Internal Audit reports to a level within our Co-op that allows Internal Audit to fulfil the internal audit mandate.
- Approving the internal audit Charter, internal audit plan, budget and resource plan.
- Making appropriate inquiries of senior management and the Director of Risk and Internal Audit to determine whether any restrictions on Internal Audit's scope, access, authority or resources limit its ability to carry out its responsibilities effectively.
- Reviewing Internal Audit reports addressed to the Risk and Audit Committee and considering management's response to the issues raised by Internal Audit.
- Approving the appointment or dismissal of the Director of Risk and Internal Audit
- Assessing, at least annually, the independence and effectiveness of Internal Audit. Where the tenure of the Director of Risk and Internal Audit exceeds seven years, the Risk and Audit Committee will discuss annually the Chair's assessment of the Director of Risk and Internal Audit's independence and objectivity.

- Meeting periodically with the Director of Risk and Internal Audit in sessions without senior management present.

Co-op Senior Management are responsible for:

- Identifying, understanding and managing risks effectively.
- Maintaining a sound system of internal controls over people, processes and systems, and key risks facing the business and its operation, including fraud prevention and detection.
- Supporting recognition of Internal Audit throughout our Co-op.
- Working with the Risk and Audit Committee and management throughout our Co-op to enable Internal Audit unrestricted access to the data, records, information, people and physical properties necessary to fulfil the internal audit mandate.
- Taking appropriate and timely action in response to audit findings.

OUR SCOPE

Within its scope, Internal Audit aims to ensure that:

- Detailed work is directed by a formal assessment of relevant business and functional risks and controls (e.g. business strategies, organisational culture, fraud, economic crime etc.)
- The formal internal audit work plan is co-ordinated with other assurance providers, e.g. external auditors, to avoid unnecessary duplication of work.
- Legal and regulatory requirements are included when planning and reporting audits.

To fulfil its scope Internal Audit reviews, appraises and reports on the:

- Process for assessing and managing risk.
- Adequacy and effectiveness of the systems of financial, operational and management control.
- Extent of compliance with policies, standards, plans, procedures, laws and regulations.
- Extent to which the assets and interests of our Co-op are accounted for and safeguarded from losses of all kinds.
- Suitability, reliability and integrity of financial and other management information.
- Suitability of the Co-op structure for carrying out its functions, to ensure that services are economical, efficient and effective.
- Robustness and sustainability of follow-up action taken to remedy weaknesses identified by Internal Audit review.

OUR SERVICES

Internal Audit provides the following services to our Co-op:

- **Assurance** – via delivery of our risk-based audit plan which we develop using our assurance priorities process.
- **Programme assurance** – supporting key programmes at the Co-op by overseeing the provision of assurance on key elements of programme delivery.

- **Audit Actions closure** – tracking of, and reporting on, the timely completion of actions arising from audit reports.
- **Needs Improvement Follow Up** – annually reviewing and reporting on how well the actions from previous ‘Needs Improvement’ rated audits have been embedded and sustained.
- **Whistleblowing** – oversight of the Co-op’s confidential whistleblowing process.
- **COSO** – facilitating the assessment of the effectiveness of risk and control across our Co-op on behalf of the Risk and Audit Committee.
- **Ad hoc advisory services** – with a view to helping the business improve risk management, internal control and/or governance, without compromising Internal Audit’s independence.

ASSURANCE FRAMEWORK

Our Co-op has adopted the COSO control framework and uses the three lines governance model. Operational management and risk management functions comprise the first and second lines. Internal Audit is the third line providing independent and objective assurance to the Board over the adequacy of governance, risk management and the control environment within both the first and second lines to manage the key risks of the business.

INDEPENDENCE & OBJECTIVITY

Internal Audit is independent of the activities that it audits to ensure unbiased judgements and impartial advice can be provided to management. The independence of Internal Audit is assured by the Director of Risk and Internal Audit’s reporting line to the Chair of the Risk and Audit Committee, with a secondary reporting line to the Co-op Chief Executive Officer.

The Director of Risk and Internal Audit holds private meetings with the Chair and members of the Risk and Audit Committee at least four times a year, and formally confirms the organisational independence of Internal Audit at least annually. Internal Audit exhibits a high level of objectivity and has processes in place to ensure we are not unduly influenced by our own interests or by others.

In common with many Chief Audit Executives, the Director of Risk and Internal Audit has non-audit responsibilities, in the form of responsibilities for the Risk, Governance and Compliance teams at our Co-op, as well as Internal Audit. He is also the Groceries Supply Code of Practice (GSCOP) Code Compliance Officer for our Co-op.

We have put safeguards in place to ensure that independence is not compromised. These include: clear responsibilities for the Director of Risk and Internal Audit in terms of his roles and full transparency of these with the Risk and Audit Committee; limitations on his membership of governance fora such as the Portfolio Management Committee where he is a non-voting member; whilst the Chief Executive Officer is responsible for approving his expenses, the Chair of the Risk and Audit Committee is responsible for approving his annual objectives and performance review; and where specific assurance is needed over his areas of responsibility this will be done by an independent third party.

STANDARDS OF AUDIT PRACTICE

Internal Audit adheres to the Institute of Internal Auditors' ('IIA') International Professional Practices Framework (IPPF). The IPPF was updated in 2024 and is made up of three components; the Global Internal Audit Standards ('the Standards'); Topical Requirements; and Global Guidance. The Standards become effective from 9th January 2025 and we're working towards adhering to the Standards ahead of this date. The Topical Requirements and Global Guidance have not yet been published.

Internal Audit also adheres to our Co-op's policies and guidelines covering, but not limited to, Code of Conduct, People, Technology, Financial and Operational policies as well as legal and regulatory requirements. Internal Audit maintains a professional, adequately resourced, skilled function which understands and reflects business specialisms.

RELIANCE ON OTHER ASSURANCE PROVIDERS

Where supplementary resource requirements are necessary, Internal Audit will engage and rely on work undertaken by third party assurance providers. In these instances, an assessment will be made by Internal Audit management to ensure that there are effective quality assurance processes in place over outputs.

REPORTING & MONITORING

There is a mechanism in place for regular communication and reporting between the Director of Risk and Internal Audit and the Risk and Audit Committee. Significant elements include:

- Approval from the Risk and Audit Committee that the purpose, authority and responsibilities of Internal Audit, as defined in the Charter, continue to be adequate. This includes ensuring any changes in the IPPF are identified and updated into our Charter.
- Approval of the audit plan for recommendation to the Board including resource or budgetary requirements and any significant deviations from the plan.
- Presentation of audit reports covering conclusions, actions and management responses, and escalation in the event of a disagreement with management
- Annual self-assessment on internal audit activity as regards its consistency with the Charter and performance relating to its plan.
- Internal Audit's quality assurance and improvement programme, including results of internal / external assessments (the latter conducted at least every 5 years).
- Facilitation of the Co-op's internal control effectiveness reporting in line with COSO requirements.