



Internal Audit Charter

Tesco Personal Finance Group

March 2024

Internal Audit Charter



Function

The purpose of Internal audit is to provide independent, objective assurance services designed to provide insight and add value to improve the bank's operations. It helps the bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Responsibility for Internal Audit within Tesco Personal Finance Group (TPFG) lies with the Audit Director. The Audit Director is responsible for maintaining a professional audit staff with sufficient knowledge, skills and experience to carry out the plan.

TPFG Internal Audit operates within the International Professional Practices Framework (IPPF) established by the Institute of Internal Auditors (IIA), in accordance with the guidance issued by the IIA for "Effective Internal Audit in the Financial Services Sector" and in accordance with all local laws and regulations applicable to the industry and jurisdiction in which TPFG operate.

Independence and objectivity

Internal Audit is independent of the activities which it audits to ensure the unbiased judgements essential to its proper conduct. If the Audit Director determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties, including the Audit Committee.

Internal Audit will be objective in discharging their responsibilities. This requires that Internal Audit is not involved in the management of the operations of Tesco Bank or in selecting or implementing internal control measures. However, Internal Audit may make recommendations as to where internal controls need to be strengthened. Objectivity requires that Internal Audit do not subordinate their judgement on audit matters to others, nor take the role of management in setting up internal controls so that they are reluctant to criticise or test them effectively.

Role and scope

The work of Internal Audit covers the whole of TPFG including Tesco Personal Finance. This also includes Tesco Underwriting (TU), for which there is a separate Audit Charter approved by the TU Board Audit Committee.

Internal Audit provides assurance services to TPFG. Specifically, the role of Internal Audit in TPFG is to assess the adequacy and effectiveness of internal controls and the system of risk management.

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

- assessing whether all significant risks are identified and appropriately reported by management and the Risk function to the Board and Executive Management;
- assessing whether they are adequately controlled; and
- challenging Executive Management on the effectiveness of governance, risk management and internal controls.

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TPFG Internal Audit will achieve this through the following core responsibilities:

- to propose an audit plan based on its understanding of the significant potential risks to which the organisation could be exposed;
- to carry out audits of functions and processes in accordance with the audit plan and any additional special investigations requested by management, the Board or the Audit Committee;
- to assess the adequacy and effectiveness of the controls in the functions and processes audited and to issue recommendations for where and why improvement is required (where appropriate) based on the result of work carried out;
- to provide reports, findings, recommendations and management-agreed actions on:
 - significant control weaknesses and breakdowns together with a robust root-cause analysis;
 - any thematic issues identified across the organisation;
 - independent views of Management's reporting on the risk management of the organisation, including a view on Management's remediation plans (which might include restricting further business until improvements have been implemented), highlighting areas where there are significant delays;
 - any 'lessons learned' analysis if a significant adverse event has occurred (for example, a regulatory breach). Any such review should assess both the role of the First and Second lines of defence and Internal Audit's own role; and
 - at least annually, an assessment of the overall effectiveness of the governance, and risk and control framework of the organisation, and its conclusions on whether the organisation's risk appetite framework is being adhered to, together with an analysis of themes and trends emerging from Internal Audit work and their impact on the organisation's risk profile.
 - whether the risk appetite has been established and reviewed through the active involvement of the Board and Executive Management. Internal Audit is not responsible for setting the risk appetite but should assess whether risk appetite is embedded within the activities, limits and reporting of the organisation; and it should report annually to the Audit Committee its conclusions on whether the organisation's risk appetite framework is being adhered to.
- to verify implementation by management of agreed actions;
- to report to the TPFG Audit Committee in relation to Internal Audit matters; and
- to provide input to the Tesco plc Internal Audit department's reporting to the Tesco plc Audit Committee.

In addition to the above, Internal Audit also provide feedback and challenge on the effectiveness of the TPFG control framework through attendance at relevant governance committees and through stakeholder management meetings.

Role and scope of the Audit Committee

The Audit Committee are responsible for:

- approval of the Internal Audit Charter;

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- establishment of a direct reporting relationship with the Audit Director which enables the function to deliver against its charter;
- appointing the TPFG Internal Audit Director and removing them from post;
- approving the risk-based Internal Audit Plan;
- approving TPFG's Internal Audit budget and assessing whether it is satisfied that Internal Audit has appropriate resources;
- assessing annually the independence and effectiveness of Internal Audit;
- approval of plan and timelines for the delivery of periodic external quality assessments of the function; and
- to consider, in the annual appraisal by the Audit Committee Chair, the Internal Audit Director's objectivity and independence. This should be explicitly discussed with the Audit Committee each year after the Internal Audit Director has been in post for seven years.

Role of Management

Senior management within TPFG are responsible for the following in respect of Internal Audit:

- Provide the Internal Audit function with unrestricted access to the data, records, information, personnel and physical properties necessary to fulfil its obligations;
- Support the organisational independence of the Internal Audit function through its positioning within the organisation; and
- Engage with and where appropriate, provide input to the Board Audit Committee and Internal Audit Director to assist with the execution of the obligations of both the Committee and the Audit function.

Interaction with other assurance providers

Internal Audit operates within a Three Lines of Defence governance framework and, as such, has regular interaction with other providers of controls assurance.

Internal Audit reviews the effectiveness of the Second Line of Defence Risk function and First Line of Defence activity. Internal Audit take account of First and Second Line of Defence activity when planning audits. Regular liaison meetings will be held with Risk in order to avoid unnecessary duplication of effort and to coordinate work as necessary.

Reporting

The Audit Director reports to the Chair of the TPFG Audit Committee, who is a Non-Executive Director of TPFG. The TPFG Audit Committee is a sub-committee of the TPFG Board. The Group Audit Director for Tesco plc provides consultative support to the TPFG Audit Director and acts as the connection to the Tesco plc Audit Committee.

An audit plan is submitted to the TPFG Audit Committee for approval on a regular basis. The Audit Director makes regular reports to the TPFG Audit Committee on the following:

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- Internal Audit's assessment of the adequacy and effectiveness of the organisation's systems of risk management and internal control based on the work of Internal Audit;
- results of audit activities and key audit findings;
- progress made by management in addressing audit findings and management's response to risk that, in the Audit Director's judgement, may be unacceptable to the Bank; and
- the audit plan and progress against the audit plan.

At least annually, the Audit Director will report on the following:

- the sufficiency of Internal Audit budget and resources;
- independence of the internal audit activity;
- Conformance with the IIA Code of Ethics and the Standards, and action plans to address any significant conformance issues; and
- Results of the quality assurance and improvement programme.

In addition, the Audit Director issues a monthly audit report to management and the Chair of the Audit Committee highlighting audit findings and progress against the audit plan.

Finally, an external quality assurance assessment will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation. The results of this assessment will be reported to the Audit Committee.

Rights and duties

The principal rights of Internal Audit are as follows:

- direct access for the Audit Director to the Board and senior management team;
- sufficient and timely access to key management information and a right of access to all of TPGF's records, necessary to discharge its responsibilities;
- right to have questions answered in a timely manner by any employee of TPGF to whom they are addressed;
- a right to address the Board at any meeting and to attend all Board discussions of Audit issues, and to receive agendas, papers and minutes of all meetings of the Boards of TPGF and its subsidiaries; and
- right of attendance at any Executive Committee or subcommittee, including the Executive Risk Committee, the Investment Review Committee, the Operating Executive Committee and the Asset and Liability Management Committee.

In line with the right of unrestricted access to TPGF's records, Internal Audit will treat all information as Amber/Confidential as a minimum and will comply with TPGF's Information Security Policy. Internal Audit may obtain assistance from experts outside of the organisation where there is a shortfall in necessary resource or expertise. In these circumstances, TPGF Procurement policies will be followed and Internal Audit will remain accountable for the quality of the deliverables provided by the third parties.