

# **Global Internal Audit Charter**

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Prepared by: Group Audit Committee



## **Purpose**

The primary role of Global Internal Audit (GIA) is to help the Board and Executive Management of HSBC group strengthen the organisation's ability to create, protect and sustain value. GIA provides independent, risk-based, and objective assurance and advisory services as to whether the design and operational effectiveness of the Group's framework of risk management, control, and governance processes, as designed and represented by management, is adequate.

The Group has adopted a risk management and internal control structure, referred to as the "Three Lines of Defence", to ensure it achieves its commercial aims while meeting regulatory and legal requirements and its responsibilities to shareholders, customers, and staff. GIA's role as the third line of defence is independent of the first and second lines of defence. In cases where GIA performs similar testing or monitoring activities to those undertaken by the first or second lines of defence, these are undertaken as part of GIA's independent assurance role and are not to be relied upon by management as a substitute for, or supplement to, first or second line of defence activities.

## **Organisation**

The Group Head of Internal Audit reports functionally to the Chair of the Group Audit Committee and reports administratively to the Group Chief Executive. The Group Head of Internal Audit will also provide reports to the Risk Management Meeting of the Group Operating Committee in relation to the work of that function and the disposition of its findings. The Group Head of Internal Audit is an attendee of the HSBC Group Operating Committee but does not participate in decision making. Audit-related matters are not subject to approval by the Group Operating Committee or any other Executive Governance body.

The Group Audit Committee will:

- Approve the Internal Audit Charter, which includes the Internal Audit mandate and the scope and types of internal audit services.
- Approve the risk based internal audit plan.
- Approve the internal audit budget and resource plan.
- Monitor, assess and conclude upon the independence, performance, and effectiveness of GIA relative to its plan and other matters.
- Approve the qualifications, appointment, or removal of the Group Head of Internal Audit.
- Engage in regular and direct communications with the Group Head of Internal Audit.
- Champion the Internal Audit function to enable it to fulfil the Purpose of Internal Auditing and pursue its strategy and objectives.

Where the tenure of the Group Head of Internal Audit exceeds seven years, the Group Audit Committee should explicitly discuss annually the Chair's assessment of the independence and objectivity of the Group Head of Internal Audit.

The Chair of the Group Audit Committee is accountable for:

- Recommending the remuneration of the Group Head of Internal Audit to the Remuneration Committee.

- Setting the objectives and appraising the performance of the Group Head of Internal Audit, also considering the views of the Group Chief Executive and the Chair of the Group Risk Committee. This appraisal considers the independence, objectivity, and tenure of the Group Head of Internal Audit.

The remuneration of the Group Head of Internal Audit and Internal Audit staff is structured in a manner such that it avoids conflicts of interest, does not impair their independence and objectivity is not directly or exclusively linked to the short-term performance of the organisation.

## **Authority**

GIA derives its authority from the Group's Audit and Risk Committees, sub-committees of the Board of Directors of HSBC Holdings plc, to which it has open access. GIA has, for the purpose of its work, unrestricted access at any time to all the records, personnel, property, and operations of the Group.

The Group Head of Internal Audit has access to the Group Chair, Chief Executive and Chairs of the Group Audit Committee and Group Risk Committee whenever it is required and reports directly to the Audit and Group Risk Committees on the state of risk management and internal control throughout the Group. GIA representatives will attend all Audit and Risk Committee meetings across the Group, including executive sessions, as may be appropriate.

## **Independence and Objectivity**

The independence of Global Internal Audit from day-to-day line management responsibility is fundamental to its ability to deliver objective coverage of all parts of the Group. GIA must have an impartial, unbiased attitude and avoid any conflict of interest.

GIA will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

All GIA teams report to the Group Head of Internal Audit either directly or via the Audit Head of a particular Business Line, Business Function, Region, or Country and to their respective Audit and Risk Committees. GIA teams may also have an administrative reporting line to the local Chief Executive Officer.

GIA is not responsible for the management of risk or the implementation of an effective control framework to mitigate risk to levels deemed to be acceptable to the Group. These areas are the responsibility of the Board and management. Consequently, GIA personnel have no line responsibilities.

Staff seconded to GIA for assignments are required to adopt the same standards and procedures as regards to independence as permanent staff and are under the direction of GIA management for the duration of their work.

The Group Head of Internal Audit will confirm annually the independence of GIA to the Group Audit Committee and communicate any incidents where independence may have been impaired in the actions or safeguards employed to address the impairment. Annually, the Group Audit Committee reviews the changes to the GIA Charter and confirms the independence and objectivity of GIA.

## **Accountabilities and Scope of Work**

The Group Head of Internal Audit is accountable for:

- Discussing the GIA Charter, mandate, and any relevant changes to them with the Group Audit Committee and senior management to confirm they accurately reflect their understanding and expectations of the function.
- Proposing GIA's risk-based Audit Plan and programme of work, which is approved by the Group Audit Committee annually, covering key risks, emerging risks, horizon risks and regulatory obligations, in line with the Group's risk management and internal control frameworks.
- Implementing the approved Audit Plan, including any regulatory or other special tasks or projects requested by regulators and local Audit and Risk Committees.
- Recruiting, developing, and retaining personnel with appropriate skills, knowledge, experience, and professional certifications to provide a credible challenge to the business and to meet the requirements of this Charter. In addition, where specific expertise is required, GIA may use co-source and guest auditors to support the audit work planned.
- Issuing periodic reports to the Audit and Risk Committees which highlight key themes that have emerged through audit activity, business and regulatory developments and provide GIA's view of emerging and horizon risks together with details of respective audit coverage undertaken or planned. The Group Head of Internal Audit will also update the Committees on key audit initiatives and provide regular updates on the progress of completion of the audit plan, including any changes; and
- Providing oversight and control over the GIA function.

GIA may provide attestations to third parties where explicitly required and follows internal procedures to mitigate the risk of providing such assurance, Internal Audit does not perform formal consulting engagements.

GIA may also perform advisory work at the request of the Board or senior management. The nature and scope of advisory services are subject to agreement with the Group Head of Internal Audit. When performing advisory services, GIA maintains objectivity and does not assume management responsibility.

The scope of the Audit Plan and the subsequent completion of the programme of work should provide reasonable assurance to management and the Board as to whether the design and operation of the Group's framework of risk management, control, and governance processes, as designed and represented by management, is adequate.

Audit coverage is achieved using a combination of business and functional governance audits, process and control audits, risk management framework audits, themed audits, and project audits. In addition, GIA may conduct Regulatory audits, investigations, and special reviews.

Results of audit work together with an assessment of the overall risk management and control framework are reported to the Audit and Group Risk Committees as appropriate, as well as to such local Audit and Risk Committees that oversee the areas reviewed. GIA reviews management action plans in relation to audit findings and verifies the adequacy and effectiveness of the mitigating controls before formally closing the issue.

Audit units must maintain a close working relationship with their local external auditors. External auditors should be kept informed of GIA activities and results and be allowed free access to all internal audit reports and supporting records.

GIA provides independent assurance to management on the effectiveness of the processes in place to manage fraud. Where material fraud occurs, GIA will review the nature of the incident and the adequacy of recent audit coverage to ascertain whether the fraud could/should have been detected and whether any control weaknesses that gave rise to the fraudulent opportunity could/should have been detected.

### **Standards of Audit Practice**

Internal auditors must exhibit the highest levels of integrity and professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. In performing their duties, internal auditors must always exercise due professional care.

GIA adheres to the “IIA Standards” as set out by the Institute of Internal Auditors in their International Professional Practices Framework. This Framework provides an internationally recognised purpose of internal auditing, expected standards of ethics and professionalism, appropriate governance, and management arrangements for the internal audit function, as well as accepted attributes of the performance of internal auditing.

Internal audit policies and procedures are set out in the Audit Instruction Manual. Internal processes are designed and implemented to ensure consistent quality of GIA work across the Group.

The Global Head of Professional Practices reports directly to the Group Head of Internal Audit and is responsible for a programme of work to evaluate conformance with the IIA Standards and GIA policies and procedures.

The Quality Assurance team, part of Professional Practices, is independent of those staff who conduct the audit work.

This Charter will be reviewed annually by the Group Head of Internal Audit to ensure that it remains current and in accordance with current procedures, standards, and good practice.

