



## **1. Definition & Mission**

- 1.1 Internal Auditing is an independent, objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of Butterfield Group (the Group).
- 1.2 Group Internal Audit assists the Group in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control, and governance processes.
- 1.3 The overarching mission of internal audit is to protect and help keep the organization safe. This is achieved by providing risk-based and objective assurance, advice, challenge and insight.

## **2. Role**

- 2.1 Group Internal Audit function is established by the Board of Directors (hereafter referred to as the Board). Responsibility for Group Internal Audit is delegated to the Audit Committee of the Board.
- 2.2 Group Internal Audit's responsibilities are defined by the Board as part of their oversight role. The primary role of the Internal Audit function is to help the Board and Executive Management protect the Group's assets, reputation and sustainability.

## **3. Scope**

Group Internal Audit operates as the third line of defense in the Butterfield risk management framework providing independent and objective assurance over the design and effectiveness of controls in place to manage the key risks impacting the Bank. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of the Group's strategic objectives are appropriately identified and managed.
- The actions of the Group's officers, directors, employees, and contractors are in compliance with the Group's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.



### 3. Scope (continued)

- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Group.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

### 4. Professionalism

- 4.1 Group Internal Audit will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing* (the **Standards**) and the Core Principles enshrined in the Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.
- 4.2 The Institute of Internal Auditors' Implementation Guides and Supplemental Guidance will also be adhered to as applicable to guide operations. In addition, Group Internal Audit will adhere to relevant organizational policies and procedures as well as Group Internal Audit's standard operating manual.
- 4.3 The Group Head of Internal Audit will ensure that Internal Audit has the appropriate resources and that Internal Audit staff possess the knowledge, skills and competencies required to carry out their work with proficiency and due professional care.



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## **5. Authority**

- 5.1 The Group Head of Internal Audit will report functionally to the Chairman of the Audit Committee and administratively to the Chairman and Chief Executive Officer. Subsidiary and divisional Audit Managers will report directly to the Group Head of Internal Audit and this reporting includes the responsibility for setting budgets and remuneration, conducting appraisals and reviewing the audit plan.
- 5.2 The nature of the functional relationship between the Group Head of Internal Audit and the Audit Committee will be unrestricted and include, amongst others, the following:
- The annual Audit Plan and the Quality Assurance and Improvement Program for the Group Internal Audit function.
  - Performance against the annual Audit Plan.
  - Specific matters related to current or completed audit engagements.
  - Results of the Quality Assurance and Improvement Program.
  - Resourcing and budgeting related to the Group Internal Audit function.
- 5.3 The scope of the Internal Audit function is unrestricted. Group Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorized to have full, free, and unrestricted access to any and all of Butterfield's records, physical properties, and personnel pertinent to carrying out any engagement. All employees of the Bank are required to assist Internal Audit in fulfilling its role and responsibilities.

In addition, the Head of Internal Audit has:

- 5.4 The right to be informed promptly of any major potential or actual control failures relevant to the bank, including any identified by the external auditors, regulators or other external parties;
- 5.5 The right of attendance at any executive or governance committees where the Head of Internal Audit, or the divisional / legal entity audit manager consider relevant or necessary;
- 5.6 The right to be informed promptly of any major acquisition / re-organisation or disposal that may have a material impact on the risk management and control environment of the bank;



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## **5. Authority (continued)**

- 5.7 Authority to allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports; and
- 5.8 Authority to obtain assistance from the necessary personnel of the Group as well as other specialized services from within or outside Butterfield in order to meet objectives.
- 5.9 The Head of Internal Audit will have unrestricted access to, and communicate and interact directly with, the board's audit committee including in private meetings without management present.

## **6. Organization**

To establish, maintain, and assure that Butterfield's Internal Audit Department has sufficient authority to fulfil its duties, the audit committee will:

- Approve the internal audit charter as well as approve the risk-based internal audit plan;
- Approve the internal audit budget and resource plan and receive communications from the Group Head of Internal Audit on the internal audit's performance relative to its plan and other matters;
- Approve decisions regarding the appointment and removal of, as well as approve the remuneration of the Group Head of Internal Audit
- Make appropriate inquiries of management and the Group Head of Internal Audit, to determine whether there is inappropriate scope, or resource limitations.
- Where the tenure of the Group Head of Internal Audit exceeds seven years, the Audit Committee to explicitly discuss annually the assessment of the Group Head of Internal audit's independence and objectivity.

## **7. Independence and Objectivity**

- 7.1 The Internal Audit function will remain free from interference by any element in the Bank including matters of audit selection, scope, procedures, frequency, timing, or report content in order to preserve necessary independence of the Internal Audit function.



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## **7. Independence and Objectivity (continued)**

- 7.2 Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.
- 7.3 Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- 7.4 The Group Head of Internal Audit will confirm to the Board, at least annually, the organizational independence of the internal audit activity.
- 7.5 Internal Audit's core role with regard to ERM is to provide objective assurance to the board on the effectiveness of risk management. Internal Audit may place reliance on the work of other functions such as the second line, after performing an evaluation of the effectiveness of the function, to ensure that coverage is maximized and duplication of effort minimized. Internal Audit may also rely on appropriate information generated by the second line of defense to facilitate the development of the internal audit plans, and to guide audit priorities and focus.
- 7.6 Where the Group Head of Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity. To enhance their independence, Internal auditors will:
- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
  - Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
  - Make balanced assessments of all available and relevant facts and circumstances; and take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.



## **8. Responsibility**

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Bank's governance, risk management, and internal control processes as well as the quality of performance in carrying out assigned responsibilities to achieve the Bank's stated goals and objectives. The Group Head of Internal Audit has the responsibility to:

- 8.1 Submit, at least annually, to senior management and the audit committee a risk-based internal audit plan for review and approval.
- 8.2 Communicate to senior management and the audit committee the impact of resource limitations on the internal audit plan.
- 8.3 Review and adjust the internal audit plan, as necessary, in response to changes in the Group's business, risks, operations, programs, systems, and controls.
- 8.4 Communicate to senior management and the audit committee any significant interim changes to the internal audit plan.
- 8.5 Follow up on engagement findings and corrective actions, and report periodically to senior management and the audit committee any corrective actions not effectively implemented.
- 8.6 Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld and that internal audit collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- 8.7 Ensure trends and emerging issues that could impact the Group are considered and communicated to senior management and the audit committee as appropriate. Ensure emerging trends and successful practices in internal auditing are considered.
- 8.8 Establish and ensure adherence to policies and procedures designed to guide internal audit. Ensure adherence to relevant Group policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the audit committee.



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## **8. Responsibility (continued)**

8.9 Performing consulting and advisory services related to governance, risk management and control as appropriate for the Bank. The internal audit may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit department does not assume management responsibility.

## **9. Internal Audit Plan**

9.1 At least annually, the Group Head of Internal Audit will submit to the Audit Committee an internal audit plan for review and approval. The internal audit plan will consist of a work schedule, a budget and resource requirements for the ensuing fiscal year. The Group Head of Internal Audit will communicate the impact of resource limitations and significant interim changes to Executive Management and the Audit Committee.

9.2 The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of Executive Management and the Board. Any significant deviation from the approved plan will be communicated to Executive Management and the Audit Committee through the submission of periodic activity reports.

## **10. Reporting and Monitoring**

10.1A written report will be prepared and issued by the Group Head of Internal Audit or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Audit Committee.

10.2 The internal audit report may include management's response and corrective action taken or to be taken, in regard to the specific findings and recommendations. Management's response will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

10.3 Group Internal Audit will be responsible for appropriate follow-up on engagement findings and recommendations. All significant open findings will be tracked until cleared and reported to the Audit Committee.

10.4 The Group Head of Internal Audit will report periodically to senior management and the audit committee regarding:

- The internal audit activity's purpose, authority, and responsibility.



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## **10. Reporting and Monitoring (continued)**

- The internal audit activity's plan and performance relative to its plan and resource requirements.
- The internal audit activity's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the audit committee.
- Any response to risk by management that may be unacceptable to the Group.

## **11. Quality Assurance**

Group Internal Audit operates a Quality Assurance and Improvement program to evaluate and conclude on all aspects of internal audit activity and lead to recommendations for appropriate improvement. The Group Head of Internal Audit will communicate to Executive Management and the Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years in accordance with the Standards.



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Name:	<u>Andrew Burns</u>
Title:	Group Head of Internal Audit

By:	<u>/m/ Michael Collins</u>
Name:	<u>Michael Collins</u>
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By:	<u>/a/ Alastair Barbour</u>
Name:	<u>Alastair Barbour</u>
Title:	Group Audit Committee Chair