

## Audit Charter

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**Audit enhances and protects the shared values by providing risk-based and objective assurance, advice and insight leading to an in control bank**

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## Colophon

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Version	Changes
0.1	Initial version [based on Audit Charter in previous format dated 10 December 2020]
0.2	Incorporation of the comments of Core ERM and MT Audit
1.0	Status change to Final.

## Consultation (\* = mandatory review)

Version	Review by	Role	Eligible for approval
0.1	Core ERM*	QA IP Risicobeleid*	Workflow SN

## Approval

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# 1 Management Summary

## **Our mission and what we do**

Audit enhances and protects the shared values by providing risk-based and objective assurance, advice and insight leading to an in control bank.

## **Our internal stakeholders**

Most important internal stakeholders for Audit are the Executive Committee, the Audit Committee of the Supervisory Board and senior management of de Volksbank N.V. (hereinafter: de Volksbank).

## **Our scope**

The scope of Audit encompasses the evaluation of the adequacy and effectiveness of the organisation's governance, risk management, compliance and internal controls as well as the quality of performance in carrying out the organisation's goals and objectives and the link thereof with the Manifesto. Audit performs audits on all activities of de Volksbank, including subsidiaries and service providers.

## **Our product range**

Audit primarily performs operational and IT audits, next to audit activities that relate to compliance, programmes, projects, soft controls (culture and behaviour), fraud and advisory assignments.

## **Our key competence**

It is fundamental that Audit is independent and impartial, both in its organisational positioning and in the mindset of its employees. Therefore, the Director of Audit reports to the CEO and has an open communication line with the Chair of the Audit Committee of the Supervisory Board.

## **Requirements**

In order to perform her work, Audit needs unconditional access to all functions, people/staff, files and systems, including minutes of the Executive Committee and Supervisory Board.

## **Realising effectiveness**

In order to realise an effective role in de Volksbank, Audit follows a structured approach:

- Based on a yearly risk analysis, leading to a multi-year audit plan, Audit receives adequate budget to perform the audits deemed necessary;
- Audit reports on her findings in writing and discusses these in draft with responsible management. When Audit identifies the need to mitigate risks, action items are agreed upon with management. Action items are reported on and followed up. The Executive Committee creates an atmosphere in which risk owners can solve issues (such as allocating budget and setting priorities) and encourages resolution;
- The outcome of the audit work is reported quarterly to the Executive Committee, Audit Committee of the Supervisory Board, senior management, the external auditor and regulators;
- From an efficiency perspective, Audit takes notice of the planning and reports of the Internal Control Departments, the second line Risk and Compliance departments and the external auditor, and plans her activities accordingly.

## **Quality assurance**

Audit has documented its approach in the Audit Manual that incorporates structured internal review. The manual is based on the professional practices as prescribed by the IIA and is compliant with regulations and guidelines from NBA, NOREA, ISACA, Basel Committee and EBA. Every 4 years Audit is evaluated externally on her ongoing compliance with these professional practices.

## 2 Introduction

### 2.1 Purpose and scope

The objective of this Charter is to describe the outline of Audit de Volksbank N.V. (Audit), including its mission, positioning, independence, organisational structure, scope, specific roles, type of activities, responsibilities, mandates, quality assurance and interaction with other departments and stakeholders. This Charter applies to de Volksbank and its subsidiaries, brands and (outsourced) portfolios unless stated otherwise.

### 2.2 Policy related documents

Type	Titel	Versie
Regulations	Regulations BoD de Volksbank N.V.	11-02-2021
Regulations	Regulations AC de Volksbank N.V.	11-02-2021
Regulations	Regulations SB de Volksbank N.V. 11.02.2021	11-02-2021

### 2.3 New in this version

- Format changed to the regular format of the IRM House of Policies;
- The changes in 2021 to the regulations of the BoD, Supervisory Board and AC committee have been taken into account;
- Board of Directors has been changed to Executive Committee. If this is not formally changed in the organisation per 1 January 2022, Executive Committee should be read as Board of Directors, until that change has been formalised.
- Programme monitoring has been removed as activity as per 2022. Audit will continue to periodically audit the Portfolio and program management reporting;
- Some additions related to data analytics;
- Audit's ability to hire external resources if deemed necessary is made more explicit in the charter;
- The biannual participation in the international benchmark study Global Auditors information Network (GAIN) by the IIA has been removed. An own benchmark with internal audit departments of Dutch banks has been started in 2020 and the Internal Audit Ambition Model (of the IIA) gives possibilities for benchmarking;
- Incorporation in the regulatory framework of the EBA Guidelines on internal governance (EBA/GL/2021/05) dated 2 July 2021 and effective per 31 December 2021, which is an update of the EBA Guidelines of 2017 with several changes and additions, such as regarding remuneration, staffing (including discrimination, gender-neutrality and reintegration of staff after maternity, paternity or parental leave), money laundering, ESG and conflicts of interest (for the company as a whole, for members of the management body and their related parties, and for other staff);
- Textual changes: especially removing unnecessary duplications.

### 2.4 Accepted (residual) risks – Future improvements

There are currently no open items for future improvements.

### 2.5 Communication & implementation plan

This document is also intended for internal communication purposes. The Charter is disclosed to all employees by publishing the document on the IRM House of Policies, the Audit intranet (iD), intranet (on the iD sites maintained by the Executive Committee support staff) and on de Volksbank N.V.'s website. At the same time, it is intended to provide insight in the Audit function to external parties such as supervisory authorities and the external auditor.

### 3 Regulatory framework

In drafting of our audit plan and the performance of audits, we specifically take into account the requirements from the following practices, regulations and guidelines:

#### International / EU regulations:

- EU directive law CRD - Capital Requirements Directive
- EU regulation CRR - Capital Requirements Regulation
- Bank Recovery and Resolution Directive
- EBA Guidelines on internal governance (EBA/GL/2021/05) dated 2 July 2021 and effective per 31 December 2021
- BCBS guidelines:
  - #223 The internal audit function in banks dated June 2012
  - #328 Corporate Governance Principles for Banks dated July 2015

#### National regulations:

- Financial Supervision Act (Wft) and underlying regulations, such as the Decree on Conduct of Business Supervision of Financial Undertakings under the Wft (Bgfo) and the Decree on Prudential Rules under the Wft (Bpr)
- Dutch Corporate Governance Code;
- Dutch Banking Code.

#### Other sources:

Professional and best practices:

- International Professional Practices Framework, Internal Audit Ambition Model and Code of Ethics from IIA
- NBA (e.g. Practice guidance 1145)
- NOREA
- ISACA (e.g. COBIT 5 framework)

Furthermore, per audit several specific laws, practices and/or regulations can be applicable, e.g. EU Deposit Guarantee Schemes Directive (in line with the DNB Policy Guide Individual Client Profile), Money Laundering and Terrorist Financing (Prevention) Act (Wwft); Sanctions regulations, WBFO and General Data Protection Regulation (GDPR).

### 4 Mission statement and scope

#### 4.1 Mission statement

To support realising de Volksbank's mission "Banking with the human touch", it is Audit's mission to enhance and protect the shared values by providing risk-based and objective assurance, advice and insight leading to an in control bank. With the Manifesto as a beacon guiding our thoughts and actions, Audit evaluates, through a systematic and disciplined approach, the effectiveness of the bank's internal control, risk management, compliance and governance systems and processes, and makes recommendations to optimise these. Audit reinforces (by providing assurance) "the Bank with the human touch" to create an excellent customer and employee experience and excellent operations in a simple, responsible, sustainable and transparent manner. Audit acts as the conscience of the organisation in realising our strategic goals of a people-oriented, social and sustainable bank.

Therefore, it is Audit's task to provide independent and objective assurance and suggest improvements to the Executive Committee, senior management and the AC of the Supervisory Board regarding:

- Governance of de Volksbank and its subsidiaries;
- Adequacy and efficiency of the internal control framework of the business processes which support the realisation of de Volksbank's Manifesto and strategic objectives;
- Reliability and adequacy of management information to support and test the realisation of de Volksbank's objectives;
- Reliability of the (financial) information and data management;
- Compliance with relevant laws and regulations;
- Facts and circumstances when fraud is suspected;
- Safeguarding of tangible and intangible (such as reputation of de Volksbank and her brands) assets;
- Follow-up on agreed action items.

## 4.2 Scope

The scope of Audit encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, compliance and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated Manifesto, shared value goals and objectives for all stakeholders (customers, society, employees and shareholders). This includes:

- Assessing the appropriateness of de Volksbank governance framework and internal control systems, including whether existing policies and procedures remain adequate and comply with legal and regulatory requirements, with decisions of management and the risk appetite, the Manifesto and strategy of de Volksbank;
- Assessing whether risk exposures, policies, plans and procedures are correctly and effectively implemented (e.g. compliance with conduct requirements of transactions, the compliance of the level of risk effectively incurred with the risk appetite and limits, etc.);
- Assessing the adequacy, quality and effectiveness of the controls performed and the reporting done by the first line and the Risk Management Function and Compliance Function;
- Assessing the reliability and integrity of information and the means used to identify, measure, classify and report such information;
- Determining if the institution adheres to internal policies and relevant legislation and addresses any deviations;
- Assessing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- Assessing the effectiveness and efficiency of resource employment;
- Assessing operations, programmes or projects to ascertain whether results are consistent with the Manifesto, objectives and goals and are timely executed;
- Adequately covering all areas in a risk-based audit plan;
- Assessing the quality of performance of external auditors and the degree of coordination with Internal Audit;
- Performing consulting and advisory services related to governance, risk management, compliance and control as appropriate for the organisation;
- Assessing and reporting significant risk exposures, control issues or specific operations, including fraud risks, governance issues and other matters needed or requested by the Executive Committee, the Supervisory Board or management, as appropriate;
- Performing data analytics to create insight in data quality and effectiveness of controls;
- Reporting periodically (with a minimum of twice a year) on Audit's purpose, authority, responsibility, internal quality assurance and performance relative to its plan.

### 4.3 Field of action

The field of action of Audit is defined by the following areas:

- All activities, entities and joint ventures within de Volksbank, which are directly or indirectly at least 50%-owned by de Volksbank;
- Activities, entities and joint ventures which are directly or indirectly less than 50%-owned by de Volksbank, as far as audit coverage is agreed upon between parties;
- All service providers to which de Volksbank business activities (e.g. front office, back office and/or IT services) are contractually outsourced;
- Acquisitions or joint ventures: Audit may take part in the due-diligence processes before acquisitions of entities or before entering into joint ventures.

### 4.4 Activities

Audit performs the following activities:

- Operational audits to review the effectiveness and efficiency of risk control within business processes. This includes an assessment of the set-up and ongoing effectiveness of the internal control framework, in line with the Manifesto, strategy and policies of de Volksbank and with properly aligned execution, communication and management information. Audit evaluates both the design, implementation and operational effectiveness of relevant procedures. In this context the adequacy, quality and effectiveness of controls performed by first and second line are evaluated;
- IT audits on information management, systems and applications and the related departments and processes;
- Financial audits:
  - The external auditor has primary responsibility for auditing the statutory financial statements;
  - Audit audits some parts of the financial statement closing processes;
- Audit has responsibility for auditing the integrity of (financial) management information by auditing the establishment process and related reporting on a cyclical basis;
- Audits of compliance with relevant laws and regulations including audits required by external stakeholders;
- Audits on change initiatives (such as programmes and projects), including reviews on governance and deliverables;
- Soft controls audits of behaviour and cultural aspects of organisational entities;
- Special investigations, such as investigations of operational losses (including fraud) with an amount bigger than € 100,000 and/or where Directors are (or seem to be) involved;
- Follow-up monitoring on action items;
- Data analysis as part of the overall risk assessment, as part of audits or as separate activity;
- Counselling and consulting, partly through joining working groups, but still working with an auditor's approach and avoiding the danger of collision;
- Activities necessary to support the AC of de Volksbank.

When activities are outsourced, Audit can make use of ISAE3402 statements received from external auditors.

If Audit identifies risks, independent of whether these risks were within or outside the scope of the specific audit, Audit provides recommendations to improve internal controls that are translated by management into action points.



## 5 Positioning & independence

It is of fundamental importance that the organisational positioning and the reporting lines of the Audit department guarantee maximum independence, impartiality and stature of the audit department and the Director of Audit.

The Director of Audit reports functionally to the Executive Committee and the AC of the Supervisory Board and administratively (i.e. day to day operations) to the CEO. Therefore the Director of Audit has frequent (at least monthly) bilateral open-minded meetings with the CEO. In these meetings both are free to discuss any matter which is considered relevant. The Director of Audit communicates and interacts directly with the AC, including executive sessions and in between Committee meetings as appropriate.

The Director of Audit participates in all meetings of the AC and Risk & Compliance Committee (R&CC) of the Supervisory Board and reports the results of performed audits to the AC quarterly. The AC and the R&CC discuss with the Director of Audit and the external auditor at least yearly the functioning and attitude of the Executive Committee (tone at the top), without the presence of the Executive Committee.

Furthermore, the Director of Audit has several bilateral meetings a year (at least quarterly) with the Chairman of the AC.

The Director of Audit is free to communicate with the external auditor(s) and regulators, as far as he or she feels appropriate in his or her professional role as Internal Auditor.

To safeguard the independence of Audit as a department in terms of objectivity and impartiality, controlling procedures such as job rotation and employability of auditors (in certain areas due to their work history or advisory assignments), peer reviews and reviews by the external auditors and regulators are carried out.

Audit is not involved in designing, selecting, establishing and implementing specific internal control policies, mechanisms and procedures, and risk limits. However, this should not prevent the Executive Committee and management from requesting input from Audit on matters related to risk, internal controls and compliance with applicable rules.

## 6 Authorities

Authority has been granted to the Director of Audit, by the Executive Committee and by the AC of the Supervisory Board, to initiate every audit that he or she deems appropriate.

Audit has the authority to:

- Have full and unconditional access to all functions, files, physical assets, personnel, buildings, systems and information (electronically and non-electronically) including access to management information systems and records and the minutes of all consultative and decision-making bodies (including all Executive Committee and Supervisory Board meetings), using good judgement with regard to privacy issues. The GDPR does not constrain this authority;
- Decide on the allocation of audit resources and audit frequency, select audit items, set audit scopes and execute every audit method necessary to reach the audit objectives;
- Demand sufficient support from the auditee's personnel;
- Hire additional and specialised resources from inside or outside de Volksbank, if necessary;
- Require timely and effective correction of audit issues by senior management;

- Review in advance any assignments given to external auditors regarding other audits and reviews excluding the year-end financial reporting.

Audit staff is not authorised to:

- Perform any operational duties for de Volksbank;
- Initiate or approve accounting transactions not related to Audit's own operations;
- Direct the activities of any de Volksbank employee not employed by Audit, except to the extent such employees have been appropriately assigned to audit teams or otherwise assist the internal auditors.

## 7 Responsibilities

The AC of the Supervisory Board:

- Reviews the audit charter, the risk based audit plan, the audit budget and resource plan, prior to approval by the Supervisory Board;
- Receives communications from the Director of Audit on Audit's performance relative to its plan and other matters;
- Reviews and concurs in decisions regarding the appointment, (temporary) suspension and dismissal of the Director of Audit, prior to approval by the Supervisory Board. The Chair of the Audit Committee plays an important role in the periodic performance evaluation of the Director of Audit. When the Director of Audit leaves de Volksbank, the Chair of the AC will conduct an exit interview;
- Makes appropriate inquiries of management and the Director of Audit to determine whether there are inappropriate scope or resource limitations.

The Executive Committee has the following responsibilities:

- Appointment, remuneration and dismissal of the Director of Audit. The chairman of the Executive Committee actively involves the chairman of the AC with regard to the appointment, remuneration and removal of the Director of Audit. Dismissal of the Director of Audit is only possible after consent of the Supervisory Board. Also a (temporary) suspension of the Director of Audit requires prior consent of the Supervisory Board. Prior to this consent, the Director of Audit should be heard by the Supervisory Board. The appointment of the Director of Audit requires the approval of regulators. If the Director of Audit is dismissed from his or her position, this is disclosed publicly. De Volksbank also discusses without delay the reasons for such dismissal or voluntary departure with its regulators;
- Ensure together with the Director of Audit that Audit has sufficient authority, standing, position, independence and direct access to the Executive Committee and the Supervisory Board;
- Proactively and fully inform Audit on topics that impact the governance, risk management, compliance and internal controls of de Volksbank. At the moment the Executive Committee is aware of (potential) incidents within de Volksbank, Audit is informed promptly and fully. The execution of an own investigation by the Executive Committee is no reason to not directly inform Audit;
- Set targets for follow-up on action points and manage this process proactively.

Audit has the following responsibilities:

- To annually perform or update an overall risk analysis for all auditable entities of de Volksbank, based on a thorough understanding of the organisation's strategies, key business objectives, associated risks and risk management processes;
- To share and discuss the updated risk analysis with the Risk Management Function and Compliance Function;

- To set up a multi-year audit plan based on the updated risk analysis which takes audit signals, trends and emerging issues that could impact the organisation and requests from the Supervisory Board, Executive Committee, management, regulators and the external auditor into account. The plan includes legally mandatory audits, reflects necessary follow-up monitoring and preserves adequate resources for ad hoc assignments;
- To have the annual audit plan approved by the Executive Committee and the AC and execute the plan accordingly. Ad hoc requests and assignments are taken into account as much as possible;
- To monitor progress of audit activities and report on deviations to the Executive Committee and the AC on a semi-annual basis;
- To organise and provide sufficient professional resources, highly skilled, well-trained employees with adequate audit and business experience and sufficient education to be able to fulfil the requirements of this charter, by drafting and implementing a yearly education plan for the Audit staff for knowledge development and to fulfil permanent educational needs;
- To make sure remuneration of Audit staff is not linked to the financial performance of the businesses that are being audited or in any other way affects the independence of Audit staff;
- To encourage Board and AC oversight in the quality assurance and improvement programme within the Audit department and the external assessment of the Audit department;
- To communicate with all relevant departments within de Volksbank on an optimal and transparent level and to organise and provide prompt audit reporting;
- To report at least quarterly to the Executive Committee and to the AC on audit results and more frequently when needed on major audit findings or even directly when very serious audit findings that could significantly harm the bank, have been noted;
- To issue, in conjunction with the external auditor, an annual management letter;
- To ensure an optimal working relationship with the external auditor(s) and to fulfil a coordinating role in the appointment and monitoring of the external auditor(s), together with the Finance department;
- To ensure an optimal working relationship with the regulators;
- To inform the Executive Committee and the AC regarding new developments, trends and best practices in the areas of Internal Audit, governance, risk management, compliance and internal controls and to propose topics to be considered in the permanent education programme for the members of the Supervisory Board and especially the AC;
- To support (the Chairman of) the AC.

## 8 Relationship with other departments

### 8.1 Three lines of defence governance model

De Volksbank has set up its risk management organisation based on the 'three lines of defence' (3LoD) model, which is described in-depth in the ERM policy.

### 8.2 Interaction with other departments

All departments (and specifically the Risk Management Function, the Compliance Function and Audit) should have a clear understanding about the division of tasks and mandates and evaluate this subject in regular meetings.

Audit is responsible for the audit of the risk management framework and for the adherence to policies and procedures, on its own initiative or at the request of stakeholders. During audits, Audit can identify risks and potential weaknesses in risk management. When reliance is placed on the work of others, the

Director of Audit is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by Audit.

Interaction together with the Risk Management Function takes place in the following areas:

- The maintenance of a common risk taxonomy: which should according to EBA Guidelines on Internal Control at least include all relevant both financial and non-financial risks, including credit, market, liquidity, concentration, operational, IT, reputational, legal, conduct, compliance with AML/CTF and other financial crime, environmental, social, governance, and strategic risks;
- Collective risk analysis sessions;
- Sharing knowledge on business and risk topics;
- On (large) fraud investigations by Security Affairs, Audit and the Internal Control department. Audit is responsible to investigate (potential) fraud with an amount bigger than € 100.000 and/or where directors are (or seem to be) involved.

Other departments are notified of the activities of Audit in order to minimise duplication of internal control, risk management and audit efforts.

## 9 Standing invitations

Audit has, as part of its monitoring and account management activities, standing invitations for de Volksbank's risk committees and in some cases for strategic programme and project steering group meetings. Audit participates as a non-voting member to prevent compromising its independent position. Within de Volksbank committees and steering groups play an important role in the governance. By use of these standing invitations, Audit can evaluate the effectiveness of governance, risk management and control processes in the first and second lines. Audit has drawn an internal procedure on how to interpret these standing invitations. Next to (un)solicited advice, Audit's role is limited to timely raising risk management related topics on the agenda and potentially quality assurance. It is assured that a committee or steering group respects this specific position. As a non-voting member, Audit is not responsible for decisions taken by a committee or steering group and the consequences thereof. Next to that, it is possible that audit findings are reported, that have not yet been identified through the standing invitations.

## 10 Relationships with external parties

### 10.1 External auditor(s) for the annual audit of the financial statements

Assignments for the annual audit of the financial statements are the responsibility of the AC. Communication on these assignments formally passes through the CFO as a member of the Executive Committee. Audit fulfils a coordinating role in the appointment and monitoring of the external auditor(s) together with Finance. All assignments performed by the external auditor should be approved by Finance and Audit beforehand.

Audit has an optimal working relationship with the external auditor(s). This includes coordinating the audit plans, mutual sharing of information about audit findings, conclusions and action points and also exchanging audit reports and memorandums. Therefore the external auditor receives all audit reports. Audit discusses with the external auditor the audits to be performed and the regular reviews by the external auditor on the work performed by Audit.

## 10.2 External auditor(s) for advisory assignments

When there is a certain need within de Volksbank to hire external auditors for advisory assignments, Audit is involved in this process and reviews the draft engagement proposal. Audit will then:

- Check whether this assignment is part of or can be included in the audit year plan (whether or not as part of the reserved ad-hoc audit capacity) or as part of the specifically reserved audit capacity for these kinds of assignments (based on the business case to reduce hiring external auditors);
- Check whether Audit can participate in the external assignment to maintain knowledge and experience and reduce costs or;
- Contribute to the quality of the engagement proposal and efficiency in the approach and the acceptability of the proposed fee.

## 10.3 Regulators

Audit maintains open relationships with the regulators ECB/DNB and AFM and aligns activities as much as possible. The Director of Audit meets at least yearly with the supervisory team of ECB/DNB. Audit's quarterly report is provided to ECB/DNB and AFM directly after clarification and discussion in the AC. The regulators can then request specific audit reports mentioned in the quarterly report. These reports are provided by Audit (after formal approval by an Audit MT member) to the regulator through the Supervisory Office.

When relevant, a representative of Audit participates in meetings which are part of on-site inspections, audits or reviews performed by regulators. The Supervisory Office makes sure Audit receives all draft and final versions of the supervisory letters and reports. Audit has a standing invitation in the Remedial Action Plan Coordinating Committee (RAP CoCo).

## 10.4 Audit opinions outside de Volksbank

Next to the external auditor and regulators, other parties (outside de Volksbank), such as suppliers, the Tax authority, NVB, Currence and CBP, make use of Audit's reports. In all these cases, it should be made clear for the receiver that the audit opinion originates from an internal audit function.

## 11 Evaluation

This Charter is evaluated on an annual basis and intermediate in case of material changes. All material changes to this Charter must be discussed with the Executive Committee and the Audit Committee and adopted by the Supervisory Board and will come into effect as from the date of adoption. The Charter document owner sees to adequate disclosure of updated versions to the relevant stakeholders.

## Appendix 1 - Quality assurance

### 1 Professionalism: professional practices, codes and regulations

Audit adheres to the Institute of Internal Auditors' mandatory guidance including the Definition of Auditing, the Code of Ethics and the International Standards for the Professional Practice of Auditing (Standards). The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers are also adhered to as applicable to guide operations.

Audit adheres to de Volksbank relevant policies and procedures and its standard operating procedures manual.

Audit staff hold various professional audit qualifications and certifications. As a result, employees of Audit are obliged to comply with the Code of Professional Conduct for Chartered Accountants ('Verordening Gedrags- en Beroepsregels Accountants' or VGBA), the NOREA rules of conduct and professional codes for REs ("Gedrags- en Beroepsregels NOREA") and the Code of Ethics of the Institute of Auditors (IIA).

### 2 Audit Manual

The Audit Manual, processes and procedures have been implemented in compliance with the codes related to these professional audit qualifications and certifications, the International Standards for the Professional Practice of Auditing of the IIA, the Regulation on Organisation & Control of the Dutch Central Bank or similar ECB regulations, the Basel Committee on Banking Supervision (BCBS) principles regarding "The internal audit function in banks", the guidelines regarding "Corporate governance principles for banks", EBA Guidelines on internal governance and the Dutch Corporate Governance Code. Also see the appendix II for more details on the applicable practices and regulations.

The Audit Manual describes the audit approach, standards and procedures, including risk analysis, audit methodology, audit planning, audit filing, audit reporting, follow-up monitoring and professional practices.

### 3 Professional skills and expertise

Audit is responsible for the adequate and professional basis of the reported findings and conclusions as well as for the advice provided. Therefore the level of professional skills and expertise of the Audit employees is of a high standard. Hiring, training, coaching on the job as well as continual professional education, manual, job instructions and tooling are geared to this.

The basis of the quality system lies within the audit teams. Auditors' work is reviewed by lead auditors and the lead auditors' work is reviewed by Audit's Management Team members. Next to this, peer review between auditors is performed. Every audit report is read in full by a Senior Audit Manager or MT member and discussed with the Lead Auditor. The Director of Audit or his/her substitute reviews all Executive Summaries in advance. All formal documents specifically written for the Executive Committee or Audit Committee are processed by at least two MT members (written or reviewed). This also includes documents written by the Director of Audit.

Auditors evaluate their work and behaviour after performed audits. The quality of skills and performance of employees is assessed at least once a year in line with the appraisal guidelines of de Volksbank.

Management is asked regularly to provide feedback on the delivered audit services. Audit's Management Team (MT) assesses four times a year (in line with IIA-standards) whether the quality system functions as intended (file reviews) and twice a year regarding the set-up and governance. Audit staff from the role Lead Auditor upwards must have a minimum of one of the following professional audit qualifications: Chartered Accountant (RA), Registered Operational Auditor (RO) and

Registered IT Auditor (RE). Preferably, audit staff also holds additional international audit certifications such as Certified Internal Auditor (CIA), Certified Financial Services Auditor (CFSA) or Certified Information Systems Auditor (CISA). The MT consists of at least one Chartered Accountant (RA) and one Registered IT Auditor (RE). The Director of Audit must have a minimum of two of the following professional audit qualifications: Registered Accountant (RA), Registered Operational Auditor (RO), Registered IT Auditor (RE) or Certified Internal Auditor (CIA).

#### **4 Resources and audit planning**

The composition and resources of the Audit department are sufficient to meet the approved multi-year audit plan. The priority, frequency and urgency of audits are determined based on a risk analysis which leads to a multi-year audit plan that provides sufficient audit coverage. For medium-term resources planning, future developments in the nature and complexity of the business activities are taken into account. There are also sufficient resources for non-cyclical and ad hoc assignments.

Based on this multi-year plan, Audit prepares an annual budget, which is approved by the Executive Committee, discussed with the AC and approved by the Supervisory Board.

During the year the annual audit plan can be adapted in the event of any urgent assignments or priorities which could arise. Audit also has the ability to hire extra internal or external resources if deemed necessary. These alterations are reported to the Executive Committee and the AC.

#### **5 Audit Approach**

Audit usually carries out the following audit approach:

- 1) Scheduling the audit;
- 2) Preparing the audit;
- 3) Communicating the audit;
- 4) Establishing a working plan including the relevant standards;
- 5) Carrying out field work;
- 6) Communicating and agreeing on the findings with the department(s) involved;
- 7) Evaluating findings (risk-based), drawing conclusions and describing needs for improvement;
- 8) Communicating and agreeing on conclusions and action points with the department(s) involved;
- 9) Reporting;
- 10) Follow-up monitoring.

#### **6 Communication with the department(s) involved**

Before, during and after an audit, communication with the department(s) involved is as transparent as possible. It is important that the communication of findings and conclusions is sufficient to achieve commitment for an agreement on the necessary action points. Action points are owned by and therefore determined by the business managers involved.

After audits, amongst other things, the level and effectiveness of this communication is assessed in the client satisfaction survey.

#### **7 Reporting**

After every audit, prompt audit reporting is ensured. The audit findings, conclusions and agreed upon action points are clearly described. The management response is preferably embedded in the report but can be provided in a separate chapter. Action points always include a clear action, a defined owner and a deadline. The action points are recorded centrally by the Risk Management Function.

Each quarter the follow-up on the action points resulting from Audit and the external auditor is validated by Audit. Regulators regularly require Audit to specifically follow-up action items resulting

from supervisory investigations; remaining supervisory actions are included in a yearly audit of the monitoring thereof by Supervisory Office. Furthermore, Audit monitors upcoming regulations or guidance regarding follow up monitoring of supervisory actions.

When Audit detects insufficient follow-up on action points, escalation to management, the Executive Committee and subsequently the AC takes place.

Audit reports are issued as “confidential” to the responsible member of the Executive Committee and down the organisational reporting line to the level of department- or process manager.

At the end of every quarter, Audit issues a Quarterly Report to the Executive Committee, the AC, the external auditor and regulators. In this report the main findings, conclusions and action points are summarised. Furthermore, all Executive Summaries (ES) from the individual audit reports finalised in that quarter and an overview of the follow-up monitoring are incorporated in the Quarterly Report. Every year, Audit issues a management letter, composed in conjunction with the external auditor.

## **8 Advice**

Audit’s main task is providing assurance to the Executive Committee, Supervisory Board and Directors, ultimately to help them to realise de Volksbank’s strategy. In conjunction with this task, Audit provides management also with recommendations and associated agreed action points. Especially when performing audits on management’s request, it is possible that the primary objective is providing advice. Appropriate procedures have been implemented to prevent that the independence, objectivity and/or impartiality of Audit and the auditors involved are impaired, when providing advice.

Furthermore, Audit determines whether the assignment can be accepted considering the required knowledge, skills and competencies. Therefore procedures for acceptance of assignments are in place.

## **9 Unbiased assessments and conflicts of interest**

Audit employees are ambassadors of the integrity code of de Volksbank. The IIA Code of Ethics and the integrity code of de Volksbank require that internal auditors shall not participate in any activity and relationship or hold a position that may impair or be presumed to impair their unbiased assessment or that may be in conflict with the interests of de Volksbank. They perform their duties with honesty, diligently and a high sense of responsibility. Audit has a procedure to report and monitor any activity, relationship or position that may impair the unbiased assessment or be in conflict with the interest of de Volksbank.

## **10 Quality Assurance, Improvement & Reporting Programme**

Audit maintains a Quality Assurance, Improvement & Reporting Programme (QAIRP) that covers all aspects of the internal audit activity. The programme includes an evaluation of the internal audit activity’s conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme, with the use of the IIA Audit Ambition Model, also assesses the efficiency and effectiveness of the internal audit activity, identifies opportunities for improvement and creates benchmark possibilities.

The Director of Audit communicates periodically (at least twice a year) to the Executive Committee and the AC on the QAIRP including results of ongoing internal assessments and external assessments conducted. The reported disclosures on QAIRP should include the scope and frequency of both the internal and external assessments, the qualifications and independence of the assessor(s) or assessment team (including potential conflicts of interest), the conclusions of assessors and the corrective action plans.



## **11 External review of Audit**

The external auditor and regulators review the work performed by Audit as often and in as much detail as necessary, in order to enable them to be sure they can rely on Audit's work. Before reporting on audit reviews, findings and conclusions should be discussed with the Director of Audit.

The Institute of Internal Auditors (IIA) or a party on behalf of the IIA reviews Audit's compliance with the IIA standards every four years. The last IIA review has been performed in 2018. The next review is planned for 2022. The codes and standards of NBA and NOREA are part of the scope of the IIA review.

## **12 Confidentiality**

All Audit employees have to comply with the confidentiality regulations in the Audit Manual and of de Volksbank. In addition to that, various codes (VGBA, IIA, NOREA) oblige auditors to handle all information they encounter during their audit work with due care and confidentiality.

Reports are not distributed beyond the circle of addressees specifically named on the front page of the reports, the external auditor and regulators, or other with the explicit approval by a member of the MT of Audit.

Files are adequately and safely stored to this end and are not handed over to third parties, except for reviews on Audit as mentioned previously and in circumstances for which the law obliges Audit to do so.