

# Global Internal Audit Charter

HSBC Holdings plc

July 2014

# Global Internal Audit Charter

## Purpose

The primary role of Global Internal Audit (GBL INA) is to help the Board and Executive Management to protect the assets, reputation and sustainability of the HSBC Group. GBL INA provides independent and objective assurance 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. GBL INA's role as the third line of defence is independent of the first and second lines of defence. In cases where GBL INA performs similar testing or monitoring activities to those undertaken by the first or second lines of defence, these are undertaken as part of GBL INA'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.

## Authority

GBL INA 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. GBL INA has, for the purpose of its work, unrestricted access at any time to all the records, personnel, property and operations of the Group. The Audit Committee oversees the independence and performance of GBL INA, reviewing the effectiveness of the function, including its strategic focus, activities and plans, staffing, qualifications and budget. The Committee also approves the qualifications, appointment or removal of the Group Head of Internal Audit.

The Group Head of Internal Audit reports functionally to the Chairman 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 Management Board in relation to the work of that function and the disposition of its findings. The Group Head of Internal Audit is a member of the HSBC Group Management Board but does not participate in decision making. Audit-related matters are not subject to approval by the Group Management Board or any other Executive Governance body.

The Group Head of Internal Audit has access to the Chairman, Chief Executive and Chairmen of the 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. GBL INA representatives will attend all Audit and Risk Committee meetings across the Group, including executive sessions, as may be appropriate. The Group Head of Internal Audit will confirm to the Audit Committee, at least annually, the organisational independence of the Audit Function.

## Independence & 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. GBL INA must have an impartial, unbiased attitude and avoid any conflict of interest.

GBL INA 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 GBL INA 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 also to their respective Audit and Risk Committees. GBL INA teams may also have an administrative reporting line to the local Chief Executive Officer.

GBL INA 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, GBL INA personnel have no line responsibilities.

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

## Accountabilities and Scope of Work

The Group Head of Internal Audit, is accountable for:

- Proposing GBL INA's risk-based Audit Plan and programme of work, which is approved by the 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, GBL INA may utilise co-source and guest auditors to support the audit worked 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 GBL INA'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 GBL INA function.

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, GBL INA may carry out 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. GBL INA 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 GBL INA activities and results, and be allowed free access to all internal audit reports and supporting records.

GBL INA provides independent assurance to management on the effectiveness of the processes in place to manage fraud. Where material fraud occurs, GBL INA 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 also 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 level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. In performing their duties, internal auditors must at all times exercise due professional care.

GBL INA adheres to The Institute of Internal Auditors' (IIA) mandatory Standards including the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (Standards). In addition, GBL INA complies with Practice Advisories, Practice Guides and recommendations issued by the IIA to the extent that these apply.

Policies and procedures are set out in the Global Audit Standards Manual (GASM). Internal processes are designed and implemented to ensure consistent quality of GBL INA work across the Group.

The 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 GBL INA policies and procedures. The Quality Assurance team, part of Professional Practices, is independent of those staff who carry out the audit work.



This Charter has been approved by the Group Audit Committee of HSBC Holdings Plc. It will be reviewed annually by the Group Head of Internal Audit and any changes will be formally approved by the Group Audit Committee.