



# Internal Audit Charter

M&G Plc Internal Audit  
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Approved by the M&G Plc Board Audit Committee on the 24<sup>th</sup> October 2022.

# Internal Audit Charter



**The effective operation of Internal Audit is a key part of the control environment required for M&G Plc to achieve its strategy, objectives and to meets its obligations.**

This charter sets out the **purpose**, activities, **scope**, management **and responsibilities of the Internal Audit function within the M&G Plc Group** and the arrangements for the management of the function, including ensuring its independence. The charter should be read in conjunction with the M&G Plc Board Audit Committee (BAC) Terms of Reference, which sets out the responsibilities of the M&G Plc BAC in providing general direction as to the scope of work and the activities to be audited. This charter is owned by the Group Head of Audit (GHA) and is co-sponsored on behalf of the Board by the chair of the M&G Plc BAC and the Chief Executive Officer (CEO).

**In accordance with IA professional standards the Charter includes reference to the follow areas, approved by the BAC annually:**

1. Role of Internal Audit (Mandate)
2. Authority, Independence and Objectivity
3. Scope and Responsibility
  - Purpose
  - Plan of Coverage and Resourcing
  - Scope of Coverage
4. Reporting and Monitoring of Audit Findings
5. Standards of Audit Practice and Internal Audit Effectiveness

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## 1. Role of Internal Audit (Mandate)

The **primary objective of Internal Audit is to provide independent and objective assurance and limited consulting services** to the Board and Executive Management on the adequacy of the design and effectiveness of the organisation's systems of internal control, thereby helping them to protect the assets, reputation and future sustainability of the Group.

Internal Audit does this by:

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

## 2. Authority, Independence and Objectivity

Internal Audit has **sufficient standing and authority within M&G Plc to carry out its activities with independence and objectivity**.

This is supported by the Group Head of Audit (GHA) having unfettered access to members of the Board, Executive Management and the External Auditors.

In addition, Internal Audit will maintain an open, constructive and co-operative relationship with the Group's regulatory authorities.

The following **reporting lines support Internal Audit's independence and objectivity** in the discharge of its responsibilities:

- A. The M&G Plc Board Audit Committee (BAC) is responsible for the performance evaluation, appointment, or removal of the GHA considering the independence, objectivity and tenure of the GHA as well as the views of the CEO;
- B. The GHA has a functional reporting line to the Chair of the BAC and an administrative reporting line to the CEO. The GHA has direct access to the Chair of the Board and Chair of the BAC and will periodically meet with the BAC without the presence of management. The GHA is also empowered to attend and observe all or part of Group Executive Committee (GEC) meetings and any other key management decision making forums as appropriate to understand the strategy of the business, key business issues and decisions, and to adjust internal audit priorities where appropriate;
- C. The GHA reports all audit related matters to the BAC and business area Audit Committees and periodically assesses and reports on the continued adequacy of the function's mandate, independence, objectivity, authority, responsibility and technical experience to enable it to accomplish its objectives;
- D. It is the responsibility of the GHA to deliver the Mandate of Internal Audit, supported by the appointed business area Audit Directors who report to their respective Audit Committee Chair and the GHA, as functional head. The GHA will consider the independence, objectivity and tenure of the Audit Director's when performing their appraisals;



- E. The remuneration of the GHA is recommended annually to the Remuneration Committee by the Chair of the BAC. The remuneration of the Internal Audit function is structured in a manner such that it avoids conflicts of interest, does not impair their independence and objectivity and is not directly or exclusively linked to the short-term performance of the organisation;
- F. All Internal Audit personnel will exhibit the highest level of professional objectivity in carrying out their duties, make a balanced assessment of all relevant circumstances, remain impartial and seek to avoid any professional or personal conflict of interest. Internal Audit will have no direct operational responsibility or authority over any business activity or personnel outside of the function.

Safeguards will be put in place for any impairment to Internal Audit's independence or objectivity, either in fact or appearance, with items escalated to the BAC as appropriate.

### 3. Scope and Responsibility

#### Position

The work of **Internal Audit complements the wider Enterprise Risk Management framework** of the M&G Plc Group in that it **operates as a 'third-line of defence'** in the provision of independent and objective internal control assurance.

In this context, the GHA defines the Internal Audit strategy and determines the organisation of the function. The overall strategy includes the audit methodology, quality assurance and resourcing.

Although Internal Audit will consider and, where appropriate, coordinate with the work of other assurance functions within the Group such as Risk, Compliance and Finance, the assessment of the adequacy and effectiveness of these functions is within the scope of Internal Audit.

As such, Internal Audit is independent of these functions and is neither responsible for, nor part of, them. The GHA and business area Audit Directors will determine how much reliance can be placed on the work of other assurance functions following a thorough evaluation of the effectiveness of that function and its work in relation to the area under review.

In addition, Internal Audit will consider the requirements of external bodies such as the Group's regulators when determining the scope of Internal Audit activity in a business area and liaise with other assurance functions and external audit to, where practicable, align plans to ensure maximum reliance can be placed on the work of Internal Audit.

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## Plan of Coverage and Resourcing

The **GHA will submit annually a 12-month audit plan** (based on an underlying risk-based multi-year plan of coverage of the group), related budget and resource plan to the BAC for review and approval. The business area plans will be agreed with the respective Audit Committee. The audit plan, including the frequency and method of audit cycle coverage, will be based on an assessment and prioritisation of the inherent risk and control environment of the Internal Audit's defined audit universe, using a risk-based methodology approved by BAC, complimented by a top-down assessment to reflect appropriate coverage of the organisation's key risks, and external factors such as emerging industry themes and Executive Management priorities. The assessment will demonstrably consider all legal entities and activities under the control of M&G Plc, while recognising local legislation or regulation as appropriate, as well as incorporate input from relevant stakeholders. In the case of joint ventures, business partnerships, or outsourcing arrangements contractual agreements may limit the scope and/or approach of Internal Audit's activities, and any such limitations will be reported to BAC.

The **audit plan, both delivery and coverage, will be subject to continuous monitoring**, with plan changes and impact on resourcing approved by the BAC and subsidiaries' Audit Committees as necessary to take account of emerging risks, specific events or changes in the structure or risk profile of the Group.

The GHA will ensure that the audit team has the skills and experience commensurate with the risks and assurance requirements of the organisation and will provide the BAC with an annual view of the quantity and quality of resource available to Internal Audit. Where appropriate, independent internal or external technical specialists will be engaged to supplement the core team, and quality assurance and improvement practices. In addition, Internal Audit will work with management to plan the rotation of suitable staff into and out of Internal Audit in order to promote the development of high performing staff.

## Scope of Coverage

**Internal Audit helps M&G Plc accomplish its objectives by bringing a systematic and disciplined approach to the evaluation and improvement of the design and operating effectiveness of the Group's system of internal control.** In this context, Internal Audit is not restricted in scope in any way and has access to all the organisation's activities and records (including sensitive information such as staff and client information and Board or Management Committee papers and physical properties) where necessary to discharge its responsibilities. Information not made available in full, or in a timely manner, depending on the circumstances, will result in audit issues being raised. In addition, in consultation with management, audits may be ceased and the outcome reported on appropriately, should Internal Audit consider that an identified failing is of such significant importance that continued audit work relating to the scope of review is not required.

The **scope of Internal Audit's coverage** includes, but is not limited to:

- A. An assessment of whether risk appetite has been established, embedded and adhered to within the activities, limits and reporting of the Group, and whether these have been reviewed through the active involvement of the Board, its Committees and Executive Management;
- B. An evaluation as to whether the design and operating effectiveness of the Group's internal governance, policies and supporting processes deliver appropriate outcomes that are in line with the objectives, risk appetite and values of the Group. This includes an evaluation as to whether the design and control of products, services and supporting processes deliver appropriate customer outcomes;
- C. An independent evaluation of risk and the design and operating effectiveness of M&G Plc's key policies, procedures and controls. This includes those in place to ensure appropriate levels of adherence to applicable laws, regulations and Board Authority requirements;

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- D. An independent evaluation of the control framework ensuring the reliability, effectiveness, integrity and sustainability of key management information systems and processes - including relevance, accuracy, availability, confidentiality, comprehensiveness of data and reporting;
- E. An independent evaluation of the risk and control culture of M&G Plc;
- F. An assessment of whether the information presented to the Board, its Committees and Executive Management for strategic and operational decision making fairly represents the benefits, risks and assumptions associated with the strategy and corresponding business model;
- G. An assessment of the modelling and management of the Group's capital and liquidity risks, as well as evaluating the means of verifying the liabilities of the organisation;
- H. An assessment of the means of safeguarding and verifying policyholder assets as well as those of the Group; and that the assets of the two remain appropriately segregated; and
- I. Key corporate events such as significant business process changes, the introduction of new products and services, outsourcing decisions and acquisitions/divestments to determine whether key risks are being adequately addressed and reported. Internal Audit will determine which events are sufficiently high risk to warrant involvement on a real time basis. Internal Audit may also include reviews of relevant post-mortem or 'lessons learned' analyses performed by the business following significant adverse events.

IA adopts a risk and sample-based assurance approach therefore whilst significant risks relevant to each assignment will be considered, adoption of such practices even when performed with due professional care does not guarantee that all significant risks will be identified and assured.

Internal Audit may provide non-audit services such as consulting or investigation assignments which are advisory in nature, relating to the evaluation and improvement of the risk management, governance and control environment. Where such services entail significant involvement with the business or result in the business instigating major changes to its processes or activities, the GHA will only approve such services where no perceived or actual conflict of interest to either the function or auditors involved is apparent.

## 4. Reporting and Monitoring of Audit Findings

In most instances an opinion bearing audit report will be distributed as appropriate following the conclusion of each assurance engagement containing conclusions on the effectiveness of the assessed control environment and risk management and control culture and appropriate audit findings to improve the Group's control environment. The GHA may authorise the issue of a non-opinion bearing report.

Details of significant matters arising, a summary of thematic and/or recurring issues and root causes of the issues identified will be reported to the BAC, Executive Management and the business area Audit Committees.

Bi-annually, **Internal Audit will provide the BAC with an assessment** based primarily on the audit work performed, **of the overall effectiveness of the governance and risk and control environment of the organisation**, including a conclusion on whether the organisation's risk appetite framework is being adhered to, together with an analysis of themes and trends emerging from IA work and their impact on the organisation's risk profile.

**Through a standardised issues assurance process Internal Audit will be responsible for monitoring management's remediation of the audit findings** and reporting the status of open items to the BAC. This includes verifying the risks originally identified in audits have been appropriately mitigated; and, where applicable, provide for BAC review/approval summaries of issues where the original target date is no longer applicable due to fundamental changes in the operating environment, management's remediation of issues is inappropriate, or management has accepted a level of residual risk that Internal Audit views to be unacceptable to the Group.

## 5. Standards of Audit Practice and Internal Audit Effectiveness

**The Internal Audit function will adhere to** the Institute of Internal Auditors (IIA) requirements as set out in the IIA's 'Code of Ethics' and 'International Standards for the Professional Practice of Internal Auditing', and other **relevant industry and regulatory related internal audit professional requirements** (refer to Appendix A). Internal Audit will conduct itself in accordance with the standards, policies and practices as set out in the Internal Audit Manual. Where Internal Audit uses external resource, either to alleviate temporary resource constraints or to provide access to particular specialisms, such resource will be required to comply with the Charter and Internal Audit Manual.

The Chief Operations Officer (COO) for Internal Audit, who is independent of the delivery team, will monitor and evaluate adherence with all relevant Internal Audit standards of practice and audit methodology. The results of these assessments are presented directly to the BAC at least annually.

**The BAC will assess annually the efficiency, effectiveness and performance of Internal Audit using several performance measures**, including appraisal of the ongoing internal Quality Assurance Improvement Programme. Additionally, the BAC will periodically obtain an independent assessment of the effectiveness and performance of Internal Audit to ensure that the function maintains conformance with all relevant Internal Audit standards of audit practice, is adequately resourced, free from constraint and has the appropriate standing within the Group.

# Appendix A: Relevant Internal Audit Professional Standards



Refers to the:

- Global Institute of Internal Auditor's International Professional Practices Framework (IPPF);
- Internal Audit Financial Services Code (Third Edition, 2021);
- International Association of Insurance Supervisors (IAIS) Core Principles;
- European Confederation of Institutes of Internal Audit (ECIIA) guidance: Internal Audit in the Insurance Industry (2019);
- Requirements for Internal Audit functions set out in the Solvency II Directive 2009/138/EC (Level 1 text) Article 47 and Delegated Regulation (EU) 2015/35 (Level 2 text) Article 271 and SMCR requirements;
- M&G plc's policies (including the Group's Code of Business Conduct and Fit and Proper Policy) and procedures and IA's own vision, objectives and IA practice methodology.