



Group Internal Audit Charter

March 2018

1. Introduction

- 1.1. This internal audit charter defines the purpose, authority, responsibilities and framework within which the Group Internal Audit (GIA) function operates and formalises the arrangements approved by the Audit Committee for GIA's role within Police Mutual. Final approval of the Group Internal Audit Charter resides with the Audit Committee on behalf of the Managing Board.
- 1.2. GIA is an independent and objective function that supports both the Group in achieving its defined strategic, operational, financial and compliance objectives, and the Board of Directors and its committees in discharging their governance responsibilities.
- 1.3. GIA assists Police Mutual in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.
- 1.4. The charter outlines the following for GIA:
 - Scope & Role;
 - Professionalism;
 - Authority;
 - Organisation;
 - Independence and objectivity;
 - Responsibilities;
 - Internal audit plan;
 - Reporting and monitoring; and
 - Quality assurance and periodic assessment.
- 1.5. The internal audit service is led by the Chief Internal Auditor (CIA) reporting to the Audit Committee Chair, supported by an in-house Internal Auditor. This is supplemented by a Guest Audit Programme and external co-source of resources to deliver the internal audit plan.
- 1.6. The CIA leads the strategy of the department and has direct responsibility for the development, leadership and operation of the GIA function. GIA defines its policies, working procedures and methods in the Group Internal Audit Methodology documents, these provide further detail of GIA's role, approach and activity.

2. Scope & Role

- 2.1. GIA is established by the Audit Committee as the internal audit function for the entire Police Mutual Group on behalf of the Managing Board; its responsibilities are defined by the Audit Committee as part of their oversight role.
- 2.2. Effective risk management, control and governance processes are the responsibility of the respective business management and risk control functions in the first and second Lines of Defence (LOD). As the third LOD, GIA independently assess whether risk management, control and governance processes are designed and operating sustainably and effectively. GIA also evaluates the independence and effectiveness of the second LOD and owns the Aligned Assurance approach across the three LOD.

3. Professionalism

- 3.1. GIA will govern itself by adherence to The Chartered Institute of Internal Auditors' (UK and Ireland) ('CIIA') mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of GIA's performance.
- 3.2. The CIIA's Practice Advisories, Practice Guides, Position Papers and the CIIA Financial Service's 'Code' guidance and recommendations will also be adhered to as applicable to guide operations. In addition, GIA will adhere to Police Mutual's relevant policies and procedures and the GIA methodology.

4. Authority

- 4.1. GIA activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out its auditing responsibilities.
- 4.2. GIA is authorised to obtain the assistance of specialists from within or outside of the Group when necessary to achieve its objectives.
- 4.3. All employees are requested to assist GIA in fulfilling its roles and responsibilities.
- 4.4. The CIA will also have free and unrestricted access to the Audit Committee Chairman, the Board and its sub-committees.

5. Organisation

- 5.1. The CIA is accountable to the Audit Committee and the Police Mutual Board and also reports, for administrative purposes to the Chief Executive.
- 5.2. The Audit Committee Chair will approve all decisions including establishing performance objectives, undertaking performance evaluations (of both GIA and the CIA), appointment, remuneration or removal of the CIA.
- 5.3. The CIA will communicate and interact directly with the Audit Committee and hold update meetings with the Chair of the Audit Committee prior to any scheduled committee meeting.
- 5.4. Meetings will be held between GIA and External Audit on as needs basis to identify opportunities where GIA can support the External Audit function and/or potential duplication / disruption to the business can be mitigated and may follow-up issues raised by External Audit.
- 5.5. GIA will engage directly with the regulators as required and requested, but only after consultation with the Executive and Compliance.

6. Independence and objectivity

- 6.1. GIA is independent in determining its activities (e.g defining scope and executing audit engagements) and GIA reports are not subject to any instructions or restrictions. GIA's authority to audit is unrestricted.
- 6.2. GIA will remain free from interference by any element in the organisation, including on matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective approach.
- 6.3. GIA 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 GIA's judgment.
- 6.4. GIA will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. GIA will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- 6.5. The CIA will confirm to the Audit Committee, at least annually, the organisational independence of GIA and the CIA. This will be included as part of the annual summary provided to the Audit Committee.

7. Responsibilities

7.1. GIA is responsible for:

- Developing and maintaining an agile and flexible internal audit function that appropriately considers the changing environment and emerging risks;
- Developing an annual audit plan based on an annual risk assessment that is periodically refreshed throughout the year;
- Coordinating its scope of work and leveraging the activities of other control functions, while maintaining its independence; and
- Issuing quarterly Audit Committee Activity reports providing a broad overview of significant audit results and key issues, control themes and trends based on individual audit results and wider observations from GIA's interactions with the Group.

7.2. The scope of GIA encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by GIA include:

- Effectiveness of processes to define strategy and risk appetite, as well as overall adherence to both;
- Effectiveness of governance and oversight processes;
- Effectiveness of risk management, including whether risks are appropriately identified and managed;
- Consistency of operations or programs with established objectives and goals;
- Effectiveness and efficiency of operations and employment of resources, including whether they are commensurate with the risks taken; Effectiveness and sustainability of remediation activities, originating from any source;
- Effectiveness of the risk and control culture of the organisation, including whether the processes, actions, 'tone at the top' and observed behaviours across the organisation are in line with the values and purpose of the organisation;
- Compliance with significant policies, plans, procedures, laws, and regulations;
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information; and
- Safeguarding of assets.

7.3. GIA may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It may also evaluate specific operations at the request of the Managing Board, Audit Committee or management, as appropriate.

7.4. Based on its activity, GIA is responsible for reporting significant risk exposures and control issues identified to the Managing Board, Audit Committee and to Senior Management, including fraud risks, governance issues, and other matters needed or requested by the Audit Committee.

8. Internal audit plan

8.1. At least annually, the CIA will submit to the Audit Committee an internal audit plan for review and approval, including risk assessment criteria and an aligned assurance heatmap encompassing the three LOD.

8.2. The internal audit plan will include timing as well as GIA budget and resource requirements for at least the next fiscal/calendar year.

8.3. The CIA will review the internal audit plan quarterly to ensure it remains aligned to the risk profile of the organisation. The CIA will communicate the impact of resource limitations and significant interim changes to the plan to the Executive and seek approval for these from the Audit Committee.

8.4. The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the Audit Committee. Prior to submission to the Audit Committee for approval, the plan may be discussed with appropriate senior

management. Any significant deviation from the approved internal audit plan will be communicated through the periodic audit activity reporting process.

9. Reporting and monitoring

- 9.1. A written report will be prepared and issued by the CIA 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.
- 9.2. The internal audit report will include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.
- 9.3. Management is responsible for remediating identified audit findings, as well as providing GIA with status updates on open issues (when requested) until the actions are attested by management as having been completed. GIA will follow-up on completed engagement findings and recommendations and all findings will remain in an open issues file until GIA confirmed closure.

10. Quality assurance and periodic assessment

- 10.1. The CIA is responsible for providing an annual self-assessment on GIA as regards to its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to its Plan.
- 10.2. In this regard, GIA will maintain a quality assurance and improvement programme that covers all aspects of GIA. The programme will include an evaluation of the GIA's conformance with the Definition of Internal Auditing and the International Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of GIA and identifies opportunities for improvement.
- 10.3. The CIA will communicate to the Executive and the Audit Committee on GIA's quality assurance and improvement programme, including results of ongoing internal assessments and External Quality Assessments (EQAs) conducted at least every five years.
- 10.4. The CIA will report to the Audit Committee on GIA's agreed Key Performance Indicators.

This Internal Audit Charter has been approved by the Audit Committee on 5 March 2018.