BM
BROOKS MACDONALD

Brooks Macdonald Group

Internal Audit Charter

Version #	2
Date	02/08/2023
Status	Approved
Review Date	21/08/2023
Approval Date	11/09/2023

02 Contents

03 Purpose

This document sets out the basis for Internal Audit ("IA"):
(i)   the IA Charter, which establishes the framework for IA; and
(ii)   how the auditing process operates practically, including:

- The preparation and approval of the annual IA Plan;
- The preparation and approval of IA review Terms of Reference (ToR) documents;
- Issue of IA reports in draft form and final form, including the basis of grading audit issues and reports;
- Reporting and tracking of IA findings; and
- Follow-up on implementation of management actions to address IA findings.

IA is an independent, objective assurance and consulting function that is guided by the philosophy of adding value to improve the operations of Brooks Macdonald (BM). IA assists BM in accomplishing the firm's objectives by employing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management and internal controls. This is active through implementation of best practice methodologies and leveraging expert capabilities.
In carrying out its activities IA aims to contribute to:

- building strong and effective risk awareness and control consciousness within BM;
- continuously improving risk management and control processes so they operate at optimum effectiveness and efficiency and reflect leading practices; and
- sharing best practice with regard to risk management and assurance across BM.

04 Authority and Objectivity

IA activity is overseen by the Audit Committee (AC) as the delegated authority of the Brooks Macdonald Group Board. IA, with strict accountability for confidentiality and safeguarding of records and information, is authorised full, free and unrestricted access to BM's records and personnel relevant to any function under review. All employees are requested to assist IA in fulfilling its roles and responsibilities. IA shall also have free and unrestricted access to senior management's papers and has the right to attend and observe all or part of decision-making forum meetings.

IA shall govern itself by adherence to The Institute of Internal Auditors' (IIA) mandatory guidance including the definition of Internal Auditing, the Code of Ethics, and the International Standards for Professional Practice of Internal Auditing. The IIA's "International Standards for the Professional Practice of Internal Auditing" (Standards) shall constitute the operating procedures for the department and the function shall ensure compliance with the CIIA FS Guidance on IA. The IIAs "Practice Advisories" will be adhered to as applicable. In addition, IA will adhere to any Relevant BM policies and procedures.

All IA activities will remain independent of any element in the organisation, including over matters of audit selection, scope, procedures, frequency, timing or report content. Such independence is necessary to maintain objective and unbiased opinion free from undue influence. All members of IA will have no direct operational responsibility over any of the activities they review and, accordingly, they shall not develop nor install systems or procedures, prepare records, or engage in any other activity which may be subject to an IA review, therefore:

- IA has no direct responsibility or authority over any operating activities reviewed and should not relieve others of their responsibilities;
- IA, has a direct reporting line, with unfettered access, to the chair of the Audit Committee and a secondary reporting line to the Chief Risk Officer for administration purpose;
- The Audit Committee approves the IA Plan;
- The board provides an appropriate budget for an effective IA
- IA reports will be circulated to Audit Committee members and summarised in the Audit Committee packs; and
- IA has the right to be informed by management, on a timely basis, of any significant control failures identified by management or the External Auditors.

05 Fraud and Irregularities

It is a management responsibility to maintain systems and to ensure that resources are properly applied in an appropriate manner on approved activities. This includes responsibility for the prevention and detection of fraud and other illegal acts.

Internal audit staff shall have regard to the possibility of such malpractice and should seek to identify serious defects in internal control which might permit the occurrence of such events.

Internal Audit should be advised of any discovery or suspicions of malpractice by management or the Board Audit Committee. Likewise, Internal Audit is responsible for notifying management or the Board Audit Committee in the event of internal audit staff discovering evidence or suspicion of malpractice. BM shall determine any action to be taken.

06 Annual IA Planning

IA will submit and present an annual risk-based IA plan to the Audit Committee for review and approval. The IA plan will be developed under the prioritisation of the audit universe using a risk-based methodology, providing consideration of rotation of audit areas and areas of greatest risk. The planning approach includes interviews with senior management and the Audit Committee together with a review of regulatory themes and any recent control issues.

The IA Plan is developed annually and reviewed for appropriateness every six months, taking into consideration:

- The Boards' views of the key risks facing the business;
- Exceptions, issues and 'thematics' raised by regulators;
- Group Risk's view on relevant risks - addressed in a plan that forms part of a value adding assurance framework;
- Recent and planned assurance activity undertaken by the Group Compliance function; and
- IA's discussion with the external auditors incorporating information and ensuring adequate coverage of risks, including:
  - External Audit relying on the work performed by IA to drive efficiency of approach; and
  - Consideration by IA of control weaknesses identified by External Audit, both in individual review planning and annual planning.

IA will review and adjust the plan, as necessary, in response to new and emerging risks including changes in BM's business, risks, operations, programs, systems and controls. Any deviation from the annually approved IA plan shall be presented to the Audit Committee for approval along with periodic activity reports.

IA will also evaluate the resource needs and related costs based on the annual risk-based plan, and confirm its resource requirements to complete it to the Audit Committee. An annual resource plan and budget will be presented to the Audit Committee for approval.

07 IA Scope

The scope of IA is unrestricted and there is no aspect of BM that IA is restricted from looking at as part of its mandate.

IA will take into account business strategy and will form an independent view of whether the key risks to the organisation have been identified, including emerging and systemic risks and assess how effectively these risks are being managed. The identification and assessment of these risks will be informed, but not determined, by the views of management and the Compliance & Group Risk functions. In setting its priorities and deciding where to carry out more detailed work, IA will focus on the areas where it considers risk to be higher.

IA will make a risk-based decision as to which areas within its scope should be included in the Annual IA Plan and it will not cover all of the potential scope areas every year.

BM is subject to an independent External Audit whose aim is to provide an opinion on whether the financial statements are a true and fair representation of the performance and year-end position of the Group. The objectives of IA are different and focus on the effectiveness of systems, and the quality and integrity of the control environment which produces the management information, rather than on the certification of financial statements. There will however be some overlap between the work of both parties and therefore the Audit Committee shall coordinate the activities of both Internal and External Audit to ensure optimum IA coverage. IA will periodically meet with External Audit to share insights on risks and minimise duplication of activity.

IA will have an open, constructive and co-operative relationship with regulators which supports sharing of information relevant to carrying out their respective responsibilities.

08 Reporting

A written report will be prepared and distributed by IA following the conclusion of each IA review. A copy of the report will be forwarded to the key stakeholders and a findings summary will be sent to the Audit Committee.

IA reports directly to the Chairperson of the Audit Committee.

The Audit Committee will support and sponsor the delivery of the independent IA activity within BM. The Audit Committee will review and approve the Annual IA Plan and any proposed changes to this plan during the audit cycle. The Audit Committee will receive progress reports on the delivery of the plan at each scheduled meeting and a summary of all issues documented in IA reports. In addition, the Audit Committee will be made aware of the overdue management agreed actions to address issues.

IA provides a status update to the Audit Committee which includes a summary of reports issued since the last meeting, progress against the IA Plan, open actions and changes to plan and /or budget where relevant. Where Very High or High rated issues are identified during an IA, these are reported immediately to senior management.

IA formally follows up on the status of each outstanding issue and associated actions each quarter and overdue items are highlighted to the Audit Committee.

09 Roles & Responsibilities

BM operates a three lines of defense model whereby:

- The business is the first line of defense. Undertaking risks within assigned limits of risk exposure and individuals are responsible and accountable for identifying, assessing and controlling the risks taken;
- The second line of defense includes the support functions; Compliance & Group Risk. These functions, in close relationship with the first line, ensure that risks in the business have been appropriately identified and managed; and,
- The third line of defense is the IA function that independently assesses and reports on the effectiveness of the design and operation controls.

The primary role of IA is to assist the Audit Committee and senior management to protect the assets, reputation and sustainability of BM. It does this by assessing whether all significant risks are identified and appropriately reported by management and the Group Risk function to senior management; assessing whether they are adequately controlled; and by challenging management to improve the effectiveness of governance, risk management and internal controls. In meeting these objectives, IA's responsibilities include, but are not limited to, the following:

- Developing and implementing a flexible, risk-based Annual IA Plan based on BM's risk universe and other concerns identified by senior management and the Audit Committee;
- Working with senior management to bring cost-effective and efficient leading practices to the way BM does business;
- Helping maintain the "Tone at the Top" for behavior and actions throughout the organisation;
- Maintaining a professional IA function with sufficient knowledge, skills and experience to meet the requirements of this Charter;
- Providing advice and counsel on risk management activities, controls and processes working with operations, Group Risk & Compliance;
- Supporting management in their responsibility to continuously evaluate the system of internal control;
- Reporting to the Audit Committee on the overall internal control environment and organisation's ethics and code of conduct;
- Participating in key capital and operational programs such as system implementations, information security, business continuity, mergers and acquisitions and others as requested by management; and
- Attending key operational committees as an observer where necessary.

IA is accountable for developing and delivering a programme of assurance aimed at validating the effective management of key business risks. IA is accountable for reporting its findings, conclusions and recommendations to those involved in each review, the Executive Risk Management Committee (ERMC), Audit Committee and BM Group Board. Management is responsible for the effective identification of risk and maintenance of adequate controls. IA is responsible for ensuring that timely follow-up on management actions occurs. Management is responsible for delivering corrective actions on reported weaknesses.

Additionally, IA delivers on its objectives by conducting independent reviews across BM's business activities documented in the IA Plan and agreed by the Audit Committee. This results in reports which identify risk mitigation and internal control improvement opportunities and action plans developed by senior management to address the improvement opportunities.

Senior management, the ERMC, Audit Committee and Brooks Macdonald Group Board can request IA to perform reviews subject to these requests not affecting the IA's independence and objectivity. The final decisions for any changes to the IA Plan rests with the Audit Committee.

Senior managers are responsible for delivering the actions assigned to them and tracking progress. Relevant MI will be provided to senior managers and relevant governance forums by either the 2nd or 3rd line.

An annual review of the adequacy of this IA Charter is also performed by the ERMC with recommendations for changes made to the Audit Committee.