



Internal Audit Charter 2025

Subject to approval at the M&G Plc Board Audit Committee on
11th December 2024

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 Chief Auditor (GCA) 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. Purpose and Mandate of Internal Audit.
2. Authority, Independence and Objectivity.
3. Position, Audit Plan and Scope of Coverage:
 - Position of Internal Audit in the Group
 - Plan of Coverage and Resourcing
 - Scope of Coverage
4. Reporting Insights and Monitoring of Audit Findings.
5. Standards of Audit Practice and Internal Audit Effectiveness.

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1. Purpose and Mandate of Internal Audit

The primary purpose of Internal Audit is to help the Board and Executive Management protect the assets, reputation, and sustainability of M&G plc. Internal Audit does this by:

- providing independent, risk-based, and objective assurance, advice, insight, and foresight;
- assessing whether all significant risks are identified and appropriately reported by management to the Board and Executive Management;
- evaluating whether the organisation is adequately controlled; and
- challenging and influencing Executive Management to improve the effectiveness of governance, risk management and internal controls, including identifying efficiencies and removing duplicative and/or redundant 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 includes the Group Chief Auditor (GCA) having unrestricted access to members of the Board, Executive Management and the External Auditors, and Internal Audit maintaining 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 GCA considering the independence, objectivity, and tenure of the GCA as well as the views of the CEO. Where the tenure of the GCA exceeds seven years, the BAC should explicitly discuss annually the chair's assessment of the GCA's independence and objectivity;
- B. The GCA has a functional reporting line to the Chair of the BAC and an administrative reporting line to the Group CEO. The GCA has direct access to the Chair of the Board and Chair of the BAC and will periodically meet privately with the BAC without the presence of management. The GCA is also empowered to attend 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 GCA 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 GCA to deliver the Mandate of Internal Audit, supported by the appointed business area Chief Auditors who report to their respective Audit Committee Chair and the GCA, as functional head. The GCA will consider the independence, objectivity and tenure of the Chief Auditors when performing their appraisals;
- E. The remuneration of the GCA 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; and
- F. All Internal Audit personnel will exhibit the highest level of professional objectivity in performing 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. Position, Audit Plan and Scope of Coverage

Position of Internal Audit in the Group

Internal Audit complements the wider Enterprise Risk Management framework of the 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 GCA defines the Internal Audit strategy and organisation of the function, with the scope of Internal Audit extending to all activities, legal entities, joint-ventures (JVs), other business partnerships, outsourcing and reinsurance arrangements (subject to contractual agreements) across the Group.

Although Internal Audit will 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.

In no circumstances will Internal Audit rely exclusively on the work of other internal and external assurance and consulting service providers, in either its risk assessment or in the determination of the level of audit testing required for the activities under review. Any judgement which results in less intensive Internal Audit scrutiny will be determined by the GCA and business area Chief Auditors following a thorough evaluation of the effectiveness of the work performed in relation to the area under review. Any limitations to the scope and/or approach of Internal Audit's activities will be reported to BAC.

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Plan of Coverage and Resourcing

The GCA will submit annually a 12-month audit plan, related budget, and resource plan to the BAC for review and approval - developed in the context of the Group-wide Coordinated Assurance plan aligned to the Group's strategy, key risks (new, emerging and systemic) and control profile to provide a view on the effectiveness of the group's control environment. The business area plans will be agreed with the respective Audit Committees.

In setting its scope, Internal Audit will form its own risk-based judgement on how best to determine Internal Audit coverage given the structure and risk profile of the organisation, with focus on the areas where it considers risks to be higher. The audit plan, including the scope, timing and method of coverage, will be dynamic, driven by a top-down risk assessment, underpinned by a risk-based prioritisation of the IA defined Audit Universe – a taxonomy of distinct activities and processes mapped to the RCSA and Risk Taxonomy framework that serves as the source of a multi-year audit plan across the M&G plc group. The assessment will reflect all activities under the control of M&G plc including appropriate coverage of the organisations legal entities (recognising mandatory coverage, local legislation, or regulation as appropriate) and consider Executive Management priorities as well as external factors such as emerging industry themes and requirements of external bodies such as the group's regulators.

Internal Audit will coordinate with other assurance functions and external audit in determining its plan to, where practicable, align activities to ensure maximum reliance can be placed on the work of Internal Audit.

The audit plan, both delivery and coverage, will be subject to continuous monitoring in the context of the Group-wide Coordinated Assurance plan, with significant plan changes and impact on resourcing approved by the BAC and business area Audit Committees as necessary to take account of emerging risks, events or changes in the structure or risk profile of the Group impacting Internal Audit's ongoing assessment of risk.

The GCA 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 providing diversity of thought. Internal Audit will work with management to plan the rotation of suitable staff into and out of Internal Audit to promote the development of high performing staff across the Group, and where appropriate, engage independent internal or external technical specialists to supplement the core team, and quality assurance and improvement practices.

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 is authorised to access all the organisation's activities, data, systems, physical properties, personnel, and records (including sensitive information such as staff and client information and Board or Management Committee papers) where necessary to discharge its responsibilities.

The scope of Internal Audit's coverage includes, but is not limited to, the following areas, with Internal Audit, where relevant, assessing not only the process followed by the organisation's first and second lines, but also the quality of their work:

A. Purpose, strategy, and business model - assessment of the processes and controls supporting strategic and operational decision-making, and the delivery of strategic priorities. It will include whether the information presented to the Board and senior management fairly represents the benefits, risks and assumptions associated with the viability of the strategy and business model;

- B. Organisational culture** - undertake risk-based reviews of organisational culture, incorporating but not limited to risk and control culture assessments. This will include an evaluation of relevant processes, tone at the top, behaviours, and way in which the strategy, values, ethics, and risk policies are aligned and embedded across the Group;
- C. Internal Governance** - an evaluation as to whether the design and operating effectiveness of the Group's internal governance structures and processes deliver appropriate outcomes that are in line with the objectives, risk appetite and values of the Group;
- D. The setting of, and adherence to, the risks the entity is willing to accept (risk appetite)** - 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;

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- E. Key corporate and external events** - such as significant business process changes, the introduction of new products and services, outsourcing decisions and acquisitions/divestments and macroeconomic and geopolitical uncertainties. Internal Audit will determine which events are sufficiently high risk to warrant involvement, and in doing so, will evaluate whether the key risks are being adequately addressed, reported, whether the related procedures and controls have been followed, and that the information used in such key decision-making is fair, balanced, and reasonable. Internal Audit may also include reviews of relevant post-mortem or 'lessons learned' analyses performed by the business following significant adverse events;
- F. Capital and liquidity risks** - an assessment of the modelling and management of the Group's capital and liquidity risks. This will include, but not limited to, the process for establishing and maintaining scenario analysis (stress testing) in relation to major risk categories and recovery plans related to economic shocks;
- G. Risks of poor customer treatment, giving rise to conduct or reputational risk** - evaluate whether the organisation is acting with integrity in its dealings with customers and in its interaction with relevant markets. This includes evaluating whether business and risk management is adequately designing and controlling products, services and supporting processes in line with customer interests, protection of customer data and applicable conduct regulation;
- H. Environmental sustainability, climate change risks and social issues** - assess matters relating to environmental sustainability, climate change risks and social issues such as diversity, equity, and inclusion. Internal audit will consider evaluating the processes to support, and the accuracy of, sustainability reporting and disclosures;
- I. Financial crime, economic crime, and fraud** - assess the adequacy and effectiveness of controls to prevent, identify, monitor, and report on illegal acts including money laundering, bribery and corruption, accounting fraud, and other forms of financial and economic crime. This includes an evaluation of the adequacy and effectiveness of fraud risk governance and management;
- J. Technology, cyber, digital and data risks** - an assessment of the governance, risk management and control framework for managing IT general controls, cyber, cloud, digital and data risks including the use of emerging technology such as artificial intelligence;
- K. Risk management, compliance, finance, and control functions** - an assessment of the adequacy and effectiveness of risk management, compliance, finance, and other control functions, including an evaluation of the functions' mandate, organisational design, activities and priorities, capabilities, resources, tools and technology and reporting; and

L. Outcomes of processes - an evaluation as to whether the design and operating effectiveness of the Group's policies and supporting processes deliver appropriate outcomes in line with the objectives, risk appetite and values of the Group.

Internal Audit 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. The GCA will only approve such services where no perceived or actual conflict of interest to either the function or auditors involved is apparent.

All members of the Internal Audit function will exercise discretion in the review of records to ensure confidentiality of all matters that come to their attention. Information not made available in full, or in a timely manner, depending on the circumstances, will result in audit issues being raised. 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.

4. Reporting Insights and Monitoring of Audit Findings

In most instances an opinion bearing audit report will be distributed following the conclusion of each assurance engagement containing conclusions on the effectiveness of the assessed control environment and risk management and control culture. The GCA may authorise the issuance of a non-opinion bearing report. Audit findings to improve the Group's control environment, including opportunities to improve the efficiency of governance, risk management, and control processes, will be reported as required.

In accordance with Operational Risk Standards, Internal Audit will monitor management's remediation of the audit findings and report the status of open items to the BAC. This includes verifying that significant risks (VH and H) identified in audits have been appropriately mitigated.

Internal Audit will present consolidated IA Status reporting to BAC, Executive Management, and business area audit and risk committees across the group, as appropriate, providing:

- Overall opinions on the assurance assignment scope areas covered in the period, including insights on significant control weaknesses and breakdowns together with root cause analysis;
- Details of any themes, trends and/or systemic issues identified impacting the organisation's risk profile, including owners, accountabilities, and timescales;

- an independent view of management’s reporting on the risk management of the organisation, including a view on management’s remediation plans, highlighting areas where there are significant delays, remediation of issues is inappropriate, or management has accepted a level of residual risk that Internal Audit views to be unacceptable to the Group; and
- Insights on areas where governance, risk management and internal controls are effective, and where Internal Audit has identified efficiencies, including removal of duplicative and/or redundant controls.

Annually, Internal Audit will provide the BAC and respective business area Audit Committees 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. This should support any board disclosure on the organisation’s risk management and material controls and should highlight any significant weaknesses identified.

5. Standards of Audit Practice and Internal Audit Effectiveness

Internal Audit will adhere to the Institute of Internal Auditors (IIA) requirements as set out in the Global Internal Audit Standards, and other relevant industry and regulatory related Internal Audit professional requirements.

Internal Audit will conduct itself in accordance with the standards, policies and practices as set out in the Internal Audit Manual and all relevant M&G Plc policies and procedures. Where Internal Audit uses internal or external resource, either to alleviate temporary resource constraints or to provide access to specialists, such resource will be required to comply with the Charter and Internal Audit Manual.

The Chief Operations Officer for Internal Audit, who is independent of the delivery team and reports directly to the GCA, will maintain a quality assurance and improvement programme (QAIP) to monitor and evaluate adherence with relevant Internal Audit standards of practice and audit methodology, assess the efficiency and effectiveness of Internal Audit and identify opportunities for improvement. The outcome of the QAIP, including the Internal Audit Performance Dashboard set by BAC to measure the function’s value and impact, will be presented to the BAC annually to inform the Committee’s opinion and formal disclosures on the effectiveness, performance, and independence of Internal Audit.

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The BAC will obtain an independent assessment of the effectiveness and performance of Internal Audit at least every five years to ensure that the function maintains conformance with all relevant Internal Audit standards, is adequately resourced, free from constraint and has the appropriate standing within the Group.

Relevant Internal Audit Professional Standards:

- Global Internal Audit Standards (2025);
- the Internal Audit Code of Practice 2025 - Principles on effective Internal Audit in the financial services, private and third sectors; and
- The 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.

In addition, Internal Audit adheres to 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 aligned to IA professional standards.