

## **Ervia - Internal Audit Charter**

### **INTRODUCTION AND PURPOSE**

Internal Audit is an independent and objective assurance activity that is guided by a philosophy of adding value to improve the operations of Ervia. It assists Ervia in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's governance, risk management and internal control.

The purpose of this Charter is to set out Internal Audit's terms of reference and the approach to projects and assignments in Ervia. This Charter will be reviewed and approved annually by the Audit & Risk Committee.

### **SCOPE**

Ervia, all its subsidiaries and joint ventures.

### **ROLE**

The internal audit activity is established by the Audit & Risk Committee. Internal Audit's responsibilities are defined by the Board as part of their oversight role.


### **AUTHORITY**

Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of Ervia's activities, records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. The Head of Internal Audit will have free and unrestricted access to the Chairperson of the Board and the Chairperson of the Audit & Risk Committee.

### **INDEPENDENCE, OBJECTIVITY AND ACCOUNTABILITY**

The Head of Internal Audit reports directly to the Audit & Risk Committee and is accountable in respect of all activities performed by Internal Audit. The Head of Internal Audit will take any matters which they believe to be of sufficient magnitude and importance to require immediate attention directly to the Chairperson of the Audit & Risk Committee. As a matter of policy, findings will be reviewed and discussed with appropriate management before being taken to the Audit & Risk Committee.

The Head of Internal Audit reports to the Group Finance Director in respect of the administration of the function.

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Internal Audit 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 attitude.

Internal Auditors 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 the Internal Auditor's judgment.

Internal Auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors 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.


The Head of Internal Audit will confirm to the Audit & Risk Committee, at least annually, the organisational independence of the internal audit function.

**RESPONSIBILITIES**

It is the responsibility of management, under the direction of the Board, to establish an effective system of internal control. Internal Audit's responsibility is to assist management in the achievement of its objectives by appraising and evaluating the systems of internal control.

The scope of internal audit encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. This includes:

- Evaluating risk exposure relating to achievement of the organisation's strategic objectives.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.

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- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organisation's risk management processes.
- Performing advisory services related to governance, risk management and control as appropriate for the organisation.
- Reporting periodically on Internal Audit's purpose, authority, responsibility, and performance relative to plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
- Evaluating specific operations at the request of the Board or management, as appropriate.

**INTERNAL AUDIT PLAN**


At least annually, the Head of Internal Audit will submit to the Audit & Risk Committee an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal/calendar year. The Head of Internal Audit will communicate the impact of resource limitations and significant interim changes to the Audit & Risk Committee.

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, the Executive team and the Audit & Risk Committee. The Head of Internal Audit will review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems and controls. Any significant deviation from the approved internal audit plan will be communicated to the Audit & Risk Committee through periodic activity reports.

In addition to the Ervia Internal Auditors, resources including business process, IT, information security, program, fraud, language or geographic needs and others will be identified and sourced through one of the approved co-sourced internal audit service providers. The Audit & Risk Committee will be notified in advance of any significant changes in the third party service providers.

**REPORTING AND MONITORING**

A written report will be prepared and issued by the Head of Internal Audit 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 Board.

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The internal audit report may 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.

Internal Audit will be responsible for appropriate follow-up on engagement findings and recommendations. All findings will remain open until cleared.

The Head of Internal Audit will periodically report to senior management and the Board on the internal audit activity's purpose, authority, and responsibility as well as performance relative to its internal audit plan. Reporting will also include significant risk exposures and controls issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Board.

**VALUES AND STANDARDS**


Internal Audit is committed to maintaining the highest ethical and professional standards. Internal audit work will be performed in accordance with the International Standards for the Professional Practice of Internal Auditing, as published by the Chartered Institute of Internal Auditors and in compliance with the Institute's Code of Ethics. Internal Audit will also comply with the requirements of the Code of Practice for the Governance of State Bodies. Internal Audit is committed to continuous assessment of the efficiency and effectiveness of the function and identifies opportunities for improvement.

**QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME**

The internal audit activity will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The programme will include an evaluation of the internal audit activity's conformance with the definition of internal auditing and the standards and an evaluation of whether internal auditors apply the code of ethics. The programme also assesses the efficiency of the internal audit activity and identifies opportunities for improvement.

The Head of Internal Audit will communicate to the Audit & Risk Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

Internal Audit will strive to uphold Ervia's values of collaboration, performance, customer service, safety and integrity in the performance of its mission.

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**APPROVALS**



**Peter Cross**  
Chairperson, Board Audit & Risk Committee




**Sean Casey**  
Acting Group Chief Executive Officer



**Cathal Marley**  
Group Finance Director



**Bridget O'Sullivan**  
Acting Head of Internal Audit

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**Appendix I – Internal Audit Process**

The following is a brief description of the internal audit process.

**Risk assessment and internal audit plan**

Internal Audit will prepare annually a risk based internal audit plan. To determine the content of the plan, Internal Audit will carry out a risk assessment to include consideration of:

- Existing organisational risk and control assessments.
- Existing knowledge of internal control matters such as reported deficiencies in internal control, past internal audit findings, results of control risk self-assessments, and external audit management letters and focus areas.
- Strategic goals and objectives.
- Areas of internal change such as reorganisation, acquisition, new businesses and process or system changes.
- Environmental factors such as economic or conditions and changes in laws and regulations.

Prior to finalisation, the proposed plan will be reviewed with selected members of management and presented to the Audit & Risk Committee for approval. Scheduled audit projects may be postponed, rescheduled or replaced if circumstances change or a more urgent need is subsequently identified. The plan is also subject to ongoing challenge in response to changing business risks. The Audit & Risk Committee will approve all changes to the internal audit plan (retrospective approval is permitted).


Internal Audit will also liaise and meet with the external auditor regularly to provide for maximum efficiency from the work done by both parties.

**Scoping**

In advance of each internal audit, a draft Letter of Understanding will be discussed with the Functional Head with responsibility for the area being audited. This will outline such matters as objectives, scope, planned timetable and key contacts. The Letter of Understanding will be approved by the Head of Internal Audit and issued to the appropriate Functional Head prior to commencement of the fieldwork.

**Fieldwork**

Internal audit procedures will be performed by the Internal Auditors. During the course of these procedures, the internal audit team will discuss progress and key findings with management. Internal Audit's objective is to work with management to identify issues and areas of potential improvement, analyse causes and impacts and determine appropriate corrective and effective solutions. A closing meeting is typically conducted on the final day of fieldwork to discuss internal audit status, findings and actions required.

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**Draft reports**

The draft report will initially be distributed to management of the area audited. Through this process, management will be given the opportunity to evaluate the draft report for factual accuracy of observations and reasonableness of the recommendations. The draft report will be reviewed and finalised at the exit meeting. For the avoidance of doubt, the Head of Internal Audit is the final determinant on the content and circulation of all internal audit reports.

**Final report**


Final reports will be circulated to the lead Executive for the area being audited, the auditee (if different), the Group Finance Director and the Group Chief Executive Officer. At a minimum, a summary of each Category One and Category Two rated reports will be circulated to the Audit & Risk Committee.

**Internal Audit ratings**

Each internal audit finding will be assigned a category. Each internal audit report will be assigned an overall category. Further details are outlined in Appendix 2. Certain internal audit projects deemed to be advisory in nature might not be rated, for example reviews of areas of known deficiencies. Follow-up rated audits will be subsequently conducted as required. Advisory projects require the advance approval of the Head of Internal Audit and the Group Finance Director.

**Follow-up**

Internal Audit will maintain a log of all recommendations and will periodically review progress against due dates. Implementation of recommendations remains the responsibility of management.

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**Appendix 2 – Internal Audit Issue and Report Ratings**

**ASSIGNING ISSUE CATEGORIES**

In assigning category ratings to issues, the associated risks and potential impact on Ervia are considered. These risks and implications may be financial, strategic, compliance or operational. Each issue raised is assigned a category ranging from category one to three. The categories are applied according to the definitions below.

**Category One:** A Category One issue is defined as one where there is a risk of a significant impact on the business that must be addressed immediately.

**Category Two:** A Category Two issue is defined as one where there is a risk of a moderate impact on the business for example a control failure or absence of an effective control in an area of moderate risk.

**Category Three:** A Category Three issue is defined as one relating to minor control improvements or enhancements in control efficiency.

**Observations:** Observations are matters for noting.


**ASSIGNING OVERALL REPORT CATEGORIES**

In making an assessment on the overall report category, the potential cumulative impact of the issues included in the report; the risk of the system audited and the steps management are already taking to address the issues identified are taken into consideration by the Head of Internal Audit.

Where a report contains a Category One issue, the overall assessment will be Category One. Where a report contains only Category Two and Three issues, which are by definition issues which have moderate or minor impact, professional judgment is applied in determining the overall assessment. If the cumulative impact is considered to be significant, the report will be graded as Category One. Each internal audit report is assigned an overall rating based on category one to three. The Categories are applied according to the definitions below.

**Category One:** Internal audit reports containing Category One issues are defined as Category One reports unless other mitigating controls or audit evidence suggests otherwise.

Furthermore, where a report contains a number of Category Two issues (defined below) which, taken together, indicate weaknesses in the control environment for a particular process, the report will be assigned a Category One grade. The issues themselves will be graded as Category Two in the report.


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**Category Two:** Internal audit reports containing Category Two issues, and no Category One issues, will usually be graded as Category Two.

**Category Three:** Internal audit reports containing only Category Three issues or Observations will be graded as Category Three.

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