

# Covéa Finance Internal Audit Policy

## **Background**

Regulatory requirements relating to the periodic control system and in particular the General Regulation of the Autorité des Marchés Financiers (AMF) Articles 313-62, 313-63 and 313-67, require Covéa Finance, as an asset management company approved by the AMF, to set up a periodic control function that is separate and independent from its other functions.

Covéa Finance has the legal form of a Société par Actions Simplifiée (simplified joint stock company) with a collegial management structure and a supervisory committee. It is 100% owned by the Covéa insurance group and subject to the regulatory requirements of the insurance sector controlled by the Autorité de Contrôle Prudentiel et de Résolution (ACPR).

Since 2016, Covéa Finance has chosen to create a team dedicated to periodic control in order to safeguard the entire system and to keep a certain level of autonomy in the functions and tasks assigned to this unit. The work was previously carried out by external service providers or with the contribution of members of the permanent control team.

This policy defines the scope of intervention of the Internal Audit function as well as its operation and the preparation of its missions, up to the follow-up of its recommendations.

## **General Principles**

In accordance with the administrative order of 9 March 2006, the company's internal control system incorporates a periodic control function called "Internal Audit".

Internal Audit is one component of Covéa Finance's control system. It acts on third level risk control, intended to assess the effectiveness of the compliance and internal control system. The two first levels of control constitute permanent control. First level control is exercised at operational level by the employees and second level control by the managers or internal control.

The control system, represented below in the form of a pyramid, demonstrates how each control level covers a wider scope with a finer level of detail than the level above. The escalation of information provided by the various control links enables an exhaustive and balanced view of the risks inherent in the company.



Visibility of risks

Covéa Finance Internal Audit structures its duties according to 3 areas of concern:

- meeting the needs and concerns of the governance of the company, and of the Chairwoman in particular,
- ensuring compliance of the activities audited with regulatory expectations,
- evaluating the whole of the L1 and L2 permanent control system.

## **Scope and organisation of Internal Audit**

The Internal Audit function is placed under the authority of the Chairwoman and acts under the responsibility of an accountable manager. It has a duty to act in all the areas and sectors of activity of the company.

Internal Audit contributes to improving the group's risk control. The periodic evaluation of activities provides assurance of the compliance and control of the transactions carried out by employees and the ensuing recommendations help to remedy any weaknesses detected.

The function is implemented by the dedicated team but assistance (necessary technical expertise, complementary resources, market view...) may be sought

from external service providers who remain under its responsibility and leadership.

A multiyear audit plan is prepared by Internal Audit, shared by the Executive Committee and approved by the Chairwoman. It covers the main activities of Covéa Finance and integrates the guidance and priorities of the company's governance and of the Chairwoman in particular. The internal audit plan is defined over a five-year cycle and is revised every year in accordance with the work to be done and/or the emergence of new risks.

### **Development of the internal audit plan**

The development of the audit plan is based on:

- an analysis of the main levels of risk applicable to Covéa Finance. In this regard, sensitive "core business" activities are reviewed annually under one of their components (Equity Management / Rates Management / Multimanagement / Risk Control / Trading),
- factoring in changes that affect the processes, activities or legal scope of the company, analysis of the work of the Statutory Auditors on UCITS, principals or the management company,
- guidance and any requests from members of the Covéa Finance Executive Committee and the Supervisory Committee,
- comments in the summaries of reports from Internal Control and the Risk Committee (led by Risk Control),
- the analysis of conclusions of the controls or investigations conducted by the supervisory authorities of Covéa Finance,
- the analysis of work carried out by the Covéa Group's Internal Control and Audit functions,
- the expertise of the Internal Control and/or Internal Audit teams.

### **Execution of Internal Audit missions**

The missions to be carried out are detailed in the audit plan presented to the Executive Committee and approved by the Chairwoman. This plan must, however, allow a certain flexibility to include missions that may be assigned

over the course of the year by Covéa Finance Senior Management or required by the AMF.

The execution of an audit mission is based on the following five phases:

- After the scope of the mission has been defined by the Head of Internal Audit, the engagement letter is sent by email to the Head of the area to be audited. Its purpose is to meet the needs and concerns of the Chairwoman, in compliance with regulatory expectations. In particular, it will detail the scope and objectives of the audit, the main points to be audited, the start-up period and the (internal or external) resources to be devoted to this Audit.
- During the preparatory phase, the auditors collect information on the area to be audited, familiarise themselves with the scope and plan the various the stages of the audit.
- During the analysis phase, interviews are conducted and the information collected is analysed. The auditors establish findings based on the strengths and weaknesses that they have identified in the area being audited.
- A testing phase, carried out in part on computer data, is then implemented to support the findings made. Over the course of the mission, and as required, the auditors inform those audited of their findings in order to seek explanations for any problem areas identified and look for compliance with the assessment and the recommendations made.
- Internal Audit prepares a provisional audit report presenting the work carried out. Its findings are accompanied by recommendations for the area audited. This report is presented to the managers concerned as an opportunity for them to comment on or agree with the recommendations of the audit. In the event of a disagreement, they must justify their position. The final audit report is then sent to the members of the Covéa Finance Executive Committee. It is supplemented with details of any corrective action required and a deadline for its implementation.

Within the scope of predefined missions, the internal auditors have free and unlimited access not only to documents, files, tools, but also to the employees and managers of Covéa Finance.

Once the report has been approved, it is then distributed to the managers concerned and to the internal permanent control teams. It is also made available to the members of the Supervisory Committee and the Group Internal Audit.

## **Follow-up of recommendations and Internal Audit activity**

After the distribution of the report, Internal Audit conducts a follow-up of the recommendations for the Executive Committee in accordance with contractually-agreed quarterly deadlines.

Internal Audit ensures the effective implementation of the recommendations by means of interviews, document collection and tests. The recommendations remain open until Internal Audit deems that their implementation has provided reasonable assurance.

Conclusions relating to the state of progress of the implementation of the recommendations are documented in a quarterly summary sent to the heads of the areas audited and to the members of the Covéa Finance Executive Committee.

Internal Audit reports quarterly on the work carried out via an activity report to keep the Executive Committee informed of the state of progress of the audit plan and the follow-up of audit recommendations. It likewise follows the implementation of recommendations issued as a result of the audits carried out by external entities (AMF, Group Internal Audit...), during which the internal auditor acts in a coordinating and supervisory role.

## **Appendices – AMF Regulatory Framework**

### *Section 2 - Additional organisational rules applicable to asset management companies*

#### *Subsection 4 - Periodic control*

##### **Article 313-62**

Asset management companies, where appropriate and proportionate to the nature, scale, complexity and range of their business, shall establish and maintain an effective periodic control function which is separate and independent from their other functions and activities and which has the following responsibilities:

1. To establish and maintain an effective periodic control programme to examine and evaluate the adequacy and effectiveness of the asset management company's systems, internal control mechanisms and arrangements;
2. To issue recommendations based on the result of work carried out in accordance with 1.;
3. To verify compliance with those recommendations;
4. To provide reports on periodic control issues in accordance with Article 313-7.

#### *Subsection 5 - Organisation of compliance and internal control functions*

##### Paragraph 1 - Elements of compliance and internal control systems

##### **Article 313-63**

For the purposes of the provisions of Subsection 1 of Section 1 and Subsections 1, 2 and 3 of Section 2 of this Chapter, the compliance and internal control systems shall include a permanent control system as described in Article 313-64, a periodic control as described in Article 313-62 and the advice and assistance functions referred to in Point 2° of I of Article 313-2.

##### Paragraph 2 - Compliance and internal control officers

## **Article 313-67**

If an asset management company establishes a separate and independent periodic control function for the purposes of Article 313-62, that function shall be performed by periodic control officer who is not the same person as the compliance and permanent control officer.

### *Section 1 - Organisational rules applying to all investment services providers*

#### *Subsection 2 - Responsibilities of senior management and supervisory bodies*

## **Article 313-7**

Investment services providers shall ensure that senior management frequently, and at least once a year, receives frequent compliance, risk control and periodic control reports stating in particular whether the appropriate measures have been taken in the event of deficiencies.

Investment services providers shall also ensure that their supervisory body, if such a body exists, receives periodic written reports on the same topics.

With regard to CIS management activity referred to in Article 311-1 A, these reports present information about the implementation of investment strategies and internal procedures for adopting the investment decisions referred to in items b to e of Article 313-6.