

# Covéa Finance's Internal Audit Policy

## **Background**

Under article 62 of Delegated Regulation (EU) No 231/2013 and articles 321-83 of the French financial markets authority (AMF)'s General Regulations, Covéa Finance, in its capacity as an asset management company approved by the AMF, is required to establish an internal audit function that is separate and independent from its other functions.

Covéa Finance is a simplified company limited by shares (*Société par Actions Simplifiée*) with a managing board and supervisory committee. It is a wholly-owned subsidiary of the Covéa insurance group, which is subject to the regulatory requirements of the insurance sector and regulated by the French Prudential Supervisory Authority (Autorité de Contrôle Prudentiel et de Résolution – ACPR).

Covéa Finance established an internal audit team in 2016 to secure the whole control system and ensure a certain independence of the audits and work entrusted to the team. Such work had previously been carried out by external service providers or with the help of members of the team responsible for permanent control.

The internal audit policy sets out the internal audit department's remit and operations, from how it prepares its audits to how it follows up its recommendations.

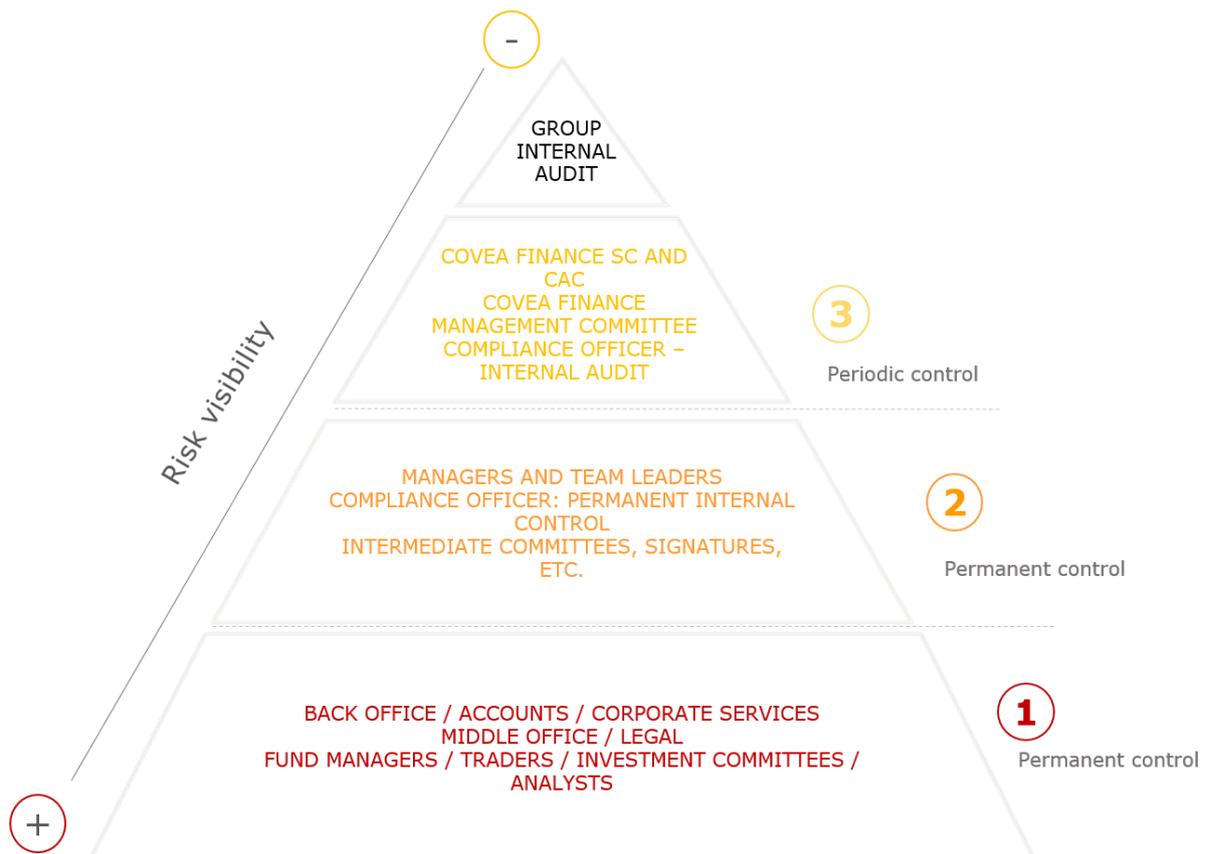
## **General principles**

In accordance with the Order of 9 March 2006, the company's internal control system includes an internal audit function.

Internal audit is a component of Covéa Finance's control system. It is a level-3 risk management function, designed to assess the effectiveness of the compliance and internal control system. The first two levels constitute permanent control. The 1st level of control is performed by employees and the 2nd level by managers or by Internal Control.

When represented in the form of a pyramid it is seen that each line of the control system covers a wider scope and greater level of detail than the level

above it. The information reported from the different levels of the control system provides a comprehensive and measured view of the risks inherent to the company.



Covéa Finance's internal audit department prepares and conducts its audits based on three main goals:

- meet the needs and concerns of the company's governance, notably the chairwoman;
- ensure the audited activities comply with the regulator's requirements;
- assess the entire L1 and L2 permanent control system.

## **Scope and organisation of internal audit**

The internal audit function falls under the authority of the Chairwoman and conducts its activities under the responsibility of an accountable manager. It has the duty of auditing all areas of the company's business.

Internal audit contributes to improving the organisation's risk management. Periodic audits of activities provide assurance that the company's operations are compliant and are carried out effectively by employees, and the resultant recommendations remedy any inadequacies detected.

The function is carried out by the dedicated team but may use external service providers, under its responsibility and direction, for technical assistance, additional resources, market view, etc.

A multi-annual audit plan is drawn up by Internal Audit for submission to the Management Committee and validation by the Chairwoman. It is prepared to cover Covéa Finance's main activities, by including senior management's objectives and priorities, notably the Chairwoman's. The internal audit plan covers a 5-year cycle and is reviewed and adjusted each year in line with work to be carried out and/or the emergence of any new risks.

## **Drafting the internal audit plan**

The audit plan's construction is based on the following:

- Analysis of Covéa Finance's main risk levels. To this end, sensitive 'core' activities are reviewed annually by component (Equity Management / Fixed-Income Management / Multi-management / Risk Control / Trading);
- Changes affecting the company's processes, activities or legal scope, and examination of work carried out by UCITS auditors, principals or the management company;
- Objectives and any requests of members of Covéa Finance's Management Committee or Supervisory Committee;
- Comments on the summaries of the work of internal control and of the Risk Committee (coordinated by Risk Management);
- Examination of the conclusions of controls or investigations carried out by the supervisory authorities that regulate Covéa Finance;
- Examination of the work of Covéa Group's Audit and Internal Control;
- The expertise of Internal Control and Internal Audit teams.

## **Internal audit assignments**

The audits conducted are those included in the audit plan that has been presented to the Management Committee and validated by the Chairwoman. However, the plan must be flexible enough to include additional audits requested by Covéa Finance's Chairwoman or the AMF.

Audits are structured around the following five phases:

- After the scope of the assignment has been specified by the Head of Internal Audit, the assignment letter is e-mailed to the manager of the area to be audited. The objective is to satisfy the requirements and concerns of the Chairwoman, including regulatory requirements. The letter specifies, in particular, the audit's scope and objectives, main points to be audited, initial phase and resources (internal and/or external) used to conduct the audit.
- A preparatory phase is used to collect information about the area audited, to understand the scope of the audit and to plan its various stages;
- The analysis phase comprises interviews and examination of the information collected. The auditors produce their diagnosis based on the strengths and weaknesses of the audited area.
- Partly conducted using computer data, a test phase is then carried out to substantiate the findings.
- During the assignment, as and when required, the auditors notify the auditees of their findings, to find explanations for any anomalies found, and seek their acceptance of the diagnosis and recommendations.
- Internal Audit produces a provisional audit report of the work carried out. The findings are accompanied by recommendations for the audited area. The report is presented to the relevant managers to enable them to formulate their observations or to confirm their agreement with the audit recommendations. In the event of any disagreement, they must explain their position.
  - The final audit report is then sent to the members of Covéa Finance's Management Committee. Any corrective actions decided and the time given for their implementation are then included.

For pre-defined audits, internal auditors have free and unrestricted access to documents, files and tools, as well as to Covéa Finance employees and managers.

Once validated, the report is then sent to the relevant managers and permanent internal control teams. It is made available to members of the Supervisory Committee and to Group Internal Audit.

## **Follow-up of Internal Audit's recommendations and activities**

Once the report has been circulated, Internal Audit monitors the implementation of its recommendations on a formally agreed quarterly basis, informing the Management Committee of results of this follow-up.

Internal Audit verifies its recommendations have been effectively implemented through interviews, collecting documents and conducting tests. Recommendations remain open until Internal Audit deems that there is reasonable assurance of their having been implemented.

Conclusions regarding progress implementing the recommendations are recorded in a quarterly summary sent to the managers of the audited area and to the members of Covéa Finance's Management Committee.

Internal Audit issues a quarterly activity report to inform the Management Committee of the progress of the audit plan and the status of the audit recommendations' follow-up. It also monitors the implementation of recommendations issued following external audits (AMF, Group Internal Audit, etc.), in which the internal auditor has a coordination and supervision role.

## **Appendices – regulatory context**

Delegated Regulation (EU) No 231/2013

- Article 62

Permanent internal audit function

1. AIFMs shall, where appropriate and proportionate to the nature, scale and complexity of their business and the nature and range of collective portfolio management activities undertaken in the course of that business, establish and maintain an internal audit function which is separate and independent from the other functions and activities of the AIFM.

2. The internal audit function referred to in paragraph 1 shall:

a) establish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the AIFM's systems, internal control mechanisms and arrangements; L 83/40 Official Journal of the European Union 22.3.2013 FR

b) issue recommendations based on the results of work carried out in accordance with point a);

c) verify compliance with the recommendations referred to in point b);

d) report internal audit matters.

Title I UCITS management company

Chap 3 Organisational rules

Section 13 - Periodic control

- Article 321-83

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

1. Establish and maintain an effective audit plan to examine and evaluate the adequacy and effectiveness of the asset management company's systems, internal control mechanisms and arrangements;

2. Issue recommendations based on the result of work carried out in accordance with 1°;
3. Verify compliance with those recommendations;
4. Provide reports on internal audit issues in accordance with Article 321-36.

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

### Sub-section 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 internal audit function which is separate and independent from their other functions and activities and which has the following responsibilities:

1. Establish and maintain an effective audit plan to examine and evaluate the adequacy and effectiveness of the asset management company's systems, internal control mechanisms and arrangements;
2. Issue recommendations based on the result of work carried out in accordance with 1°;
3. Verify compliance with those recommendations;
4. Provide reports on internal audit issues in accordance with Article 313-7.

### Sub-section 5 - Organisation of compliance and internal control functions

#### Paragraph 1 - Elements of the compliance and internal control system

- Article 313-63

Pursuant to the provisions of Sub-section 1 of Section 1 and of Sub-sections 1, 2 and 3 of Section 2 of this chapter, the compliance and internal control system shall include permanent control as described in Article 313-64, periodic control as described in Article 313-62 and the advisory and assistance functions specified in 2° of I of Article 313-2.

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

- Article 313-67

Where the portfolio management company establishes a separate and independent periodic control function pursuant to Article 313-62, this function shall be assigned to a different periodic control officer to the officer responsible for the compliance and internal control function.

*Section 1 - Organisational rules applicable to all investment services providers*

*Sub-section 2 - Responsibilities of managers and supervisory bodies*

- Article 313-7

Investment services providers shall ensure that its managers frequently receive, at least once a year, reports on compliance, risk management and periodic control, which shall notably specify whether appropriate measures have been taken in the event of any deficiencies.

Investment services providers shall also ensure that its supervisory body, where it exists, regularly receives written reports covering the same matters.

For the activity of managing collective investments specified in Article 311-1 A, these reports shall include the implementation of the investment strategies and the internal procedures for the adoption of investment decisions specified in b) to e) of Article 313-6.