Gas Networks Ireland - Internal Audit Charter

1.0 PURPOSE AND MANDATE

Internal Audit is an independent and objective assurance activity that is guided both by a philosophy of adding value to improve the operations of Gas Networks Ireland ("GNI") and by the long-term Internal Audit Strategy which is aligned to the Global Internal Audit Standards. It assists GNI 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. It provides valuable insights to support decision-making and oversight, enhancing GNI's reputation and credibility with its stakeholders (including our ability to serve the public interest).The Internal Audit mandate defines Internal Audit's primary roles which start with a compliance focus and then move towards a business advisor, and ultimately a strategic advisor role.

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

2.0 SCOPE

This policy applies to GNI and all of its subsidiaries.

3.0 ROLE

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

4.0 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 GNI's activities, records, physical properties, and personnel pertinent to conducting 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.

5.0 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. The Head of Internal Audit also has access to the Chairperson of the Board. 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 GNI Chief Executive Officer and the GNI Chief Financial Officer in respect of the administration of the function.

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. The Head of Internal Audit will disclose to the Board any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the internal audit function's effectiveness and ability to fulfil its mandate.

6.0 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 using resources with the appropriate competence and skill to carry out the audit activity.

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 conducting 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.

- 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.

7.0 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, in addition to indicative high-level plans for the two following years. 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 GNI Internal Auditors, resources including business process, IT, information security, program management, fraud and other expertise required will be 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.

8.0 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.

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 through the quarterly recommendations follow-up process. 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.

Internal Audit reports are confidential and are intended solely for the information and use of GNI management and the Board Audit & Risk Committee and are not intended to be and should not be used by or disclosed to anyone other than these specified parties. Any other persons who choose to rely on the reports do so entirely at their own risk.

9.0 VALUES AND STANDARDS

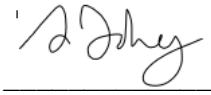
Internal Audit is committed to maintaining the highest ethical and professional standards. Internal Audit will adhere to the Institute of Internal Auditors' International Professional Practices Framework, which incorporates both the Global Internal Audit Standards and the Topical Requirements. Internal 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 identification of opportunities for improvement.

10.0 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

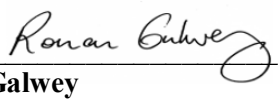
The internal audit function will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Institute of Internal Auditors' Global Internal Audit Standards. The programme will also assess the efficiency of the internal audit activity and identify 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 programme, including results of ongoing internal assessments and external assessments conducted at least every five years.
Internal Audit will strive to uphold GNI's values: Building on Experience; Doing What's Right and Energised for Change in the performance of its mission.

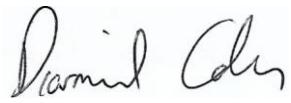
APPROVALS



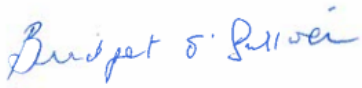
Saoirse Fahey
Chairperson, Audit & Risk Committee



Ronan Galwey
Acting GNI Chief Executive Officer



Diarmuid Collins
Acting GNI Chief Financial Officer



Bridget O'Sullivan
Head of Internal Audit

Appendix 1 – Internal Audit Mandate

The following is a high level visual of the internal audit mandate, as defined in the Internal Audit Strategy.

Our Mandate

Our IA mandate **defines our function's primary roles** which start with a compliance focus and then move towards a business advisor, and ultimately a strategic advisor role. We implement our mandate across the following three core workstreams:

Assurance

- Evaluate the systems established to ensure compliance with policies, plans, procedures, laws, and regulations which could have a significant impact on GNI
- Monitor and evaluate the effectiveness of the organisation's risk management processes
- Evaluate operations or programs to ascertain whether results are consistent with established objectives and goals
- Monitor and evaluate governance processes
- Evaluate the reliability and integrity of information and the means used to identify, measure, classify, and report such information
- Maintain a quality assurance and improvement programme that covers all aspects of activity

Advisory

- Perform advisory services related to governance, risk management and control as appropriate for the organisation
- Evaluate risk exposure relating to the achievement of the organisation's strategic objectives
- Evaluate the effectiveness and efficiency with which resources are employed
- Bring a systematic and disciplined approach to evaluating and improving the effectiveness of GNI's governance, risk management and internal control
- Report significant risk exposures and control issues, including governance issues, and other matters needed or requested by the Board

Anti-Fraud, Bribery and Corruption

- Act as the Fraud Champion
- Through our assurance activities, report significant risk exposures and control issues, including fraud, bribery or corruption risks, as needed or requested by the Board
- Drive the delivery of the GNI anti-fraud framework through the "Doing the Right Thing Programme" and support the business as fraud detection and prevention measures continue to be embedded into GNI business as usual operations
- Maintain the highest ethical and professional standards
- Facilitate the continued roll out of mandatory anti-fraud, bribery and corruption awareness training
- Promote a culture of openness and reporting of concerns or wrongdoing in conjunction with the CLO.

Appendix 2 – 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 conduct a risk assessment to include consideration of:

- Existing organisational risk and control assessments.
- Outputs from the Combined Assurance Process
- 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.

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 GNI Chief Financial Officer and the GNI Chief Executive Officer. At a minimum, a summary of the "Critical", "High" and "Moderate" 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 GNI Chief Financial Officer.

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.

Appendix 3 – Internal Audit Issue and Report Ratings

ASSIGNING ISSUE CATEGORIES

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

Critical: A "Critical" observation is defined as one where there is a risk of a significant impact on the business that must be addressed immediately at senior management level.

High: A "High" observation is defined as one where there is a risk of a high impact on the business for example a control failure or absence of an effective control in an area of high risk that requires attention at an appropriate management level within the defined period.

Moderate: A "Moderate" observation 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 that requires attention at an appropriate management level within the defined period.

Low: A "Low" observation is defined as one relating to minor control improvements or enhancements in control efficiency.

Non Categorised: Non categorised observations are matters for noting only in audit reports.

Defined period is the "Due Date" specified in the audit report.

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 an issue classified as "Critical", the overall report category will be "Critical". Where a report contains issues classified as "High", "Moderate" and "Low", professional judgment is applied in determining the overall report rating. If the cumulative impact is considered to have a significant impact on the business unit, the report will be graded as "Critical". Each internal audit report is assigned an overall rating based on categories "Critical" to "Low". The Categories are applied according to the definitions below.

Critical: Internal audit reports containing "Critical" issues are classified as "Critical" reports unless other mitigating controls or audit evidence suggests otherwise.

Furthermore, where a report contains a number of issues classified as "High" (defined below) which, taken together, indicate weaknesses in the control environment for a particular process,

the report will be graded as “Critical”. The issues themselves will be graded as “High” in the report.

High: Internal audit reports containing issues classified as “High”, and no issues classified as “Critical”, will usually be graded as “High”.

Moderate: Internal audit reports containing issues classified as “Moderate”, and no issues classified as “High”, will usually be graded as “Moderate”.

Low: Internal audit reports containing only issues categorised as “Low” will be graded as “Low”.

Non Categorised: Internal audit reports which are advisory in nature are classified as “Non Categorised”.