
Society of Lloyd's Internal Audit Charter and Operating Standards

April 2020

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1 Document Control

1.1 Issue

This document (Internal Audit Charter and Operating Standards) is issued by by the Society of Lloyd's Head of Internal Audit to whom any change requests or queries should be directed.

The master for this document shall be maintained / accessed electronically. Any copy-controlled printed copies shall be suitably identified. A printed copy that is not suitably identified is not copy-controlled and will not be automatically updated. It is therefore the responsibility of the reader to ensure that it is a currently valid copy.

1.2 Document Properties

(Note: All IMAP documents should have a URN, if not please consult with the Risk Management team.)

URN	IAP
File name	Internal Audit Charter and Operating Standards
Review frequency	Annually
Document tier	Tier 1
Document applicability	All documents within the Lloyd's Internal Model Documentation Inventory
Parent documentation	N/a
Underlying documentation	N/a
Internal distribution list	N/a
External distribution list	N/a

1.3 Review and Approvals

Role	Name	Job Title	Status	Date
Owner	Ed Thomas	Head of Internal Audit	Reviewed	08/03/2019
Author	Nins Mundair	Senior Internal Audit Manager	Prepared	09/03/2020
Reviewer	Ed Thomas	Head of Internal Audit	Reviewed	09/03/2020
Approval History	Audit Committee	Audit Committee	Approved	09/03/2018
	Audit Committee	Audit Committee	Approved	14/03/2019
	Audit Committee	Audit Committee	Approved	20/04/2020

1.4 Version History

This document's controlled versions must be stored in the Lloyd's Solvency II SharePoint library. Any copies stored elsewhere or in print are uncontrolled and therefore are not valid. The following table lists all major versions:

Version	Review/Publication Date	Reviewer/Approver	Status	Nature of next review and events bringing about earlier review
V 1.0	March 2018	Chris Khan	Complete	January 2019
V 2.0	March 2019	Chris Khan	Complete	January 2020
V 3.0	March 2020	Ed Thomas	Complete	January 2021

2 Introduction

2.1 Document Purpose

To clearly define the scope authority and responsibility of the Society of Lloyd's Internal Audit function.

This document sets out the basis for Internal Audit:

- (i) the Internal Audit charter, which establishes the Purpose, Authority, and Responsibility of the Internal Audit Department (framework for Internal Audit); and
- (ii) how the auditing process operates practically, including:
 - The preparation and approval of the annual Internal Audit Plan;
 - The preparation and approval of Internal Audit review scope documents;
 - Issue of Internal Audit reports in draft form and final form, including the basis of grading audit issues and reports;
 - Reporting and tracking of audit findings; and
 - Follow-up on implementation of management actions to address audit findings.

This document is applicable to the Society of Lloyd's and its subsidiaries and branches. A separate Charter and Operating Standards document is available for:

- Lloyd's Insurance Company China Limited (Lloyd's China), approved by the Lloyd's China Risk and Audit Committee; and
- Lloyd's Insurance Company S.A. (Lloyd's Brussels), approved by the Lloyd's Brussels Board.

The Head of Internal Audit for the Society of Lloyd's has oversight of all audit activity covering all Lloyd's subsidiary companies. In this regard all audit reports are summarised and presented to the Audit Committee.

2.2 Background and Regulatory Requirements

The Internal Audit Charter and Operating Standards is a formal document that defines the internal audit activities purpose, authority and responsibility. This internal audit charter and operating standards establishes the internal audit activity's position within the Society of Lloyd's, including the nature of the Head of Internal Audit's functional reporting relationship with the Society of Lloyd's Audit Committee, authorises access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. The production on an internal audit charter is required by the Institute of Internal Auditors and is required by the various regulatory bodies.

2.3 Intended Audience

This document is intended for the Society of Lloyd's Audit Committee, where final approval of this charter resides. In addition, this document can be made available to other key stakeholders to reinforce the positioning and authority of the Internal Audit function. This includes, Lloyd's management, regulators and any other interested parties.

2.4 Document Scope

The Scope covers all internal audit responsibilities for the Society of Lloyd's and its branches and subsidiaries.

2.5 Ownership, Compliance and Validation

The Head of Internal Audit is the owner of this document with ultimate approval residing with the Society of Lloyd's Audit Committee.

3 Internal Audit Charter

3.1 Mission

Internal Audit's mission is to provide reliable independent and objective assurance to the Society of Lloyd's Audit Committee ("Audit Committee") and Society of Lloyd's Executive Committee ("Executive Committee") on the adequacy, effectiveness and sustainability of the system of internal control.

This is achieved through implementation of best practice methodologies and leveraging expert capability. In carrying out its activities Internal Audit aims to enhance and protect organisational value by contributing to:

- Building strong and effective risk awareness and control consciousness within Lloyd's;
- Continuously improving risk management and control processes so they operate at optimum effectiveness and cost efficiency and reflect leading practice; and
- Sharing best practice with regard to risk management and assurance across Lloyd's.

3.2 Independence and Authority

Internal Audit must be independent from management at all times in order to be effective in executing its work freely and objectively. As such:

- The Head of Internal Audit has a direct reporting line, with unlimited access, to the Chair of the Audit Committee and a secondary reporting line, for administrative purposes, to the Chief Executive Officer.
- The Audit Committee is responsible for the approval of Internal Audit's annual plan and the overall budget;
- Internal Audit is authorised to review all areas of Lloyd's and has full, free, and unrestricted access to all activities, records, property, and personnel necessary to complete their work including correspondence with regulators and Council, Franchise Board and other relevant Committees meeting minutes;
- Internal Audit is authorised to allocate resources, set frequencies, select areas, determine audit scopes and apply audit tools and techniques, and to obtain the necessary assistance and specialised services within or outside Lloyd's to accomplish its objectives;
- All Internal Audit reports will be reported to the Audit Committee. Significant reports will also be advised to the Chair of the Audit Committee on a timely basis.
- Internal Audit has the right to be informed by management, on a timely basis, of any significant control failures identified by management or the external auditor.
- The Head of Internal Audit has the right to attend and observe all or part of Executive Committee meetings and any other key management decision making forums where they would have the appropriate standing, access and authority to challenge the Executives.

Internal Audit has no direct responsibility or authority over any operating activities reviewed and should not relieve others of their responsibilities. Internal Audit are specifically prohibited from performing management activities, including:

- Performing operational duties, including operation of policies and procedures;
- Initiating or approving accounting transactions; and
- Undertaking consulting engagements, specifically, those engagements where the primary aim includes process improvement, implementation of systems, or advising on operating practices (e.g. benchmarking).

The Head of Internal Audit will confirm to the Audit Committee, at least annually the organisational independence of Internal Audit.

3.3 Roles and Responsibilities

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Audit is the “third line of defence” in the risk governance structure, providing independent and objective risk-based assurance over the design and effectiveness of controls in place to manage the key risks impacting Lloyd’s business performance, adding value and improving Lloyd’s operations. Internal Audit has a key role in supporting the accomplishment of Lloyd’s objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Audit is accountable for developing and delivering a programme of assurance aimed at validating the effective control of key business risks. Internal Audit is accountable for reporting its findings, conclusions, and recommendations to the audited parties, executive management and Audit Committee. Management is responsible for the effective identification of risk and the maintenance of adequate systems of controls. Internal Audit is responsible for ensuring that timely follow-up on management actions occurs. Management is responsible for corrective actions on reported weaknesses.

Management can request Internal Audit to perform audit reviews subject to these requests not affecting Internal Audit’s independence and objectivity. The final decision for any changes to the Internal Audit plan rests with the Audit Committee.

An annual review of the adequacy of this Internal Audit Charter is performed by the Audit Committee.

3.3.1 Scope of Work

The primary scope of Internal Audit’s activities is the examination and evaluation of the adequacy and effectiveness of Lloyd’s systems of risk management, internal control and governance processes for the Society of Lloyd’s and its subsidiaries. In addition to this, Internal Audit’s scope will include review of:

- Compliance with policies, procedures, laws and regulations;
- Reliability and integrity of information;
- Means of safeguarding, verifying and accounting for assets;
- Design and operational effectiveness of processes and controls;
- Economic and efficient use of resources; and
- The accomplishment of strategic objectives.

3.3.2 Code of Ethics and Professional Standards

Internal Audit is expected to adhere to the International Professional Practices Framework (IPPF), which sets out the standards and guidance for internal audit’s work. These include the Core Principles for the Professional Practice of Internal Auditing, which, when taken as a whole, articulate internal audit effectiveness. Internal Audit should ensure that all of these Principles are present. The IPPF also includes the Code of Ethics, which Internal Audit management and staff are expected to comply with, along with demonstrating the Lloyd’s values. Internal Audit will also comply with the most current International Standards for the Professional Practice of Internal Auditing (Standards) contained within the IPPF.

Internal Audit also adheres to the recommendations contained within the Chartered Institute of Internal Auditors (CIIA) guidance for Effective Internal Audit in Financial Services (the ‘FS Code’). The Code, issued in 2013, was revised in September 2017.

3.3.3 Quality Assurance and Improvement Program (QAIP)

A thorough and well defined QAIP process exists over all aspects of the internal audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

At least every five years, Internal Audit will be subject to an External Quality Assessment (EQA) from a qualified external assessor. The results of the EQA will be reported to the Audit Committee.

3.3.4 External Audit

Internal Audit will liaise with External Audit to share information and ensure adequate coverage of risks. This should include:

- External Audit considering the work performed by Internal Audit to drive efficiency of approach;
- Consideration by Internal Audit of the control weaknesses identified by External Audit, both in individual internal audit planning and annual internal audit planning; and
- Provision of finalised Internal Audit reports.

3.4 Conflicts of interest

The Internal Audit function, must refrain from possible conflicts of interests. In case a conflict of interest is identified, it needs to be reported to the Audit Committee as soon as possible and remedial action must be taken.

3.5 Competence, integrity and discretion

The personal competence, integrity and discretion of each employee involved in the Internal Audit function (including co-source providers) are essential for its proper functioning.

Skills, motivation, and continuing professional development are also crucial in order to allow the Internal Audit function to operate efficiently.

The capabilities of each employee need to be assessed, considering the technical complexity of their role and the range of activities involved.

3.6 Resourcing and Budget

The Internal Audit Function will be resourced by persons with the appropriate skills and experience to undertake its responsibilities. The appropriate resourcing of the function is the responsibility of the Head of Internal Audit. The Audit Committee approves the annual plan and ensures that the Head of Internal Audit has sufficient resources and budget to perform the activities in context of this plan.

3.7 Role of Management and the Audit Committee

The Internal Audit function is ultimately responsible to the Audit Committee, and where appropriate, co-operates with the other independent control functions in carrying out its role.

Through governance arrangements, the Audit Committee ensures that the Internal Audit function and its associated reporting lines are incorporated into the organisational structure in such a way that the Internal Audit function is free from influences that may compromise its ability to undertake its duties in an objective, fair and independent manner.

Per guidance included in the CIIA FS Code, the Chair of the Audit Committee inputs into the appointment, removal, and remuneration of the Head of Internal Audit.

The Audit Committee is actively involved in the performance management of the Head of Internal Audit.

4 Internal Audit Operating Standards

4.1 Internal Audit Annual Planning Process

The annual audit planning process commences in September each year. The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of executive management, senior management and the Audit Committee. The plan will be submitted to the Audit Committee for discussion, review and approval. Should the Audit Committee require any changes to the plan these will be made, and the plan resubmitted. The Audit Committee has the right to request changes to the plan throughout the year, including requests for additional audit activity. Any significant deviation from the approved internal audit plan will be communicated to and approved by the Audit Committee.

The audit universe and annual plan are developed independently by Internal Audit with full reference to:

- Executive and senior management's views of the key risks facing the business;
- Expectations and issues raised by the regulator;
- The 2nd Line of Defence, including both the Risk Management and Compliance teams, to ensure all relevant risks are addressed in a plan that forms part of a value adding assurance framework; and
- Internal Audit's discussions with the external auditor.

4.2 Audit Scope Documents

4.2.1 Contents and Timing

Internal Audit drafts each scope document in a timely manner, following a planning meeting with management, outlining the:

- Review objectives;
- Scope of the review, including specific points of focus for the review; and
- Proposed time of commencement and the estimate of the days required for completion.

4.2.2 Approval

Each audit will be assigned an Executive Owner that is part of the Executive Committee, this ensures that there is accountability and ownership for the audit. The scope document is reviewed by the Executive Owner for completeness to identify areas of known concern and/or areas that require remedial action. The Executive Owner is not allowed to restrict the scope but may identify areas of specific focus that may be added to the agreed work programme.

The scope document requires the approval of the Head of Internal Audit to ensure appropriate risk focus and to authorise the allocation of the estimated Internal Audit days for the review.

4.3 Issue of Draft and Final Internal Audit Reports

A written report will be issued, in draft format, following the conclusion of each audit. The Executive Owner will be asked to respond to points raised within reasonable time limits established by Internal Audit. If the Executive Owner disagrees with Internal Audit, Internal Audit will make their own decisions without pressure or influence

from management. A final audit report will be issued within a reasonable time after receiving management responses, Internal Audit will distribute the report as deemed appropriate.

Separate guidance is provided as it relates to the grading of audit opinions (Significant, Improvement Required, Minor Improvement Needed, Effective) and audit issues (High, Medium and Low). The Head of Internal Audit will use this guidance as well as professional scepticism to apply an appropriate audit opinion and issue grading to reports as appropriate.

4.4 Reporting and Tracking of Audit Findings

4.4.1 Reporting of Audit Reports

All audit reports as defined above, are reported to the Audit Committee. Significant reports will be advised to the Chair of the Audit Committee on a timely basis. The Head of Internal Audit or a delegate thereof is always present in meetings where Internal Audit results are presented.

4.4.2 Tracking of Audit Findings

Internal Audit follows up on the status of each outstanding audit issue during the year. Aged outstanding items are highlighted to the Audit Committee.

4.4.3 Reporting to the Audit Committee

A quarterly status report on the progress of Internal Audit is provided to the Audit Committee. This status report includes, for example; issued audit reports, audits in progress, changes to plan and/or budget, department updates and the status of implementation of audit findings. An overall summary, by grade, of agreed audit issues requiring management action are included in the quarterly reporting.

On an annual basis, the Internal Audit function reports to the Audit Committee on key Corporation themes and issues. It will highlight the key areas of the Audit Landscape that have been covered and include the type of audit that has been performed.

4.4.4 Reporting to the Remuneration Committee

An annual 'risk underpin' summary is provided to the Remuneration Committee in support of their assessment of risk in determining individuals' performance and performance-related remuneration. The summary could include for example; the results of the audit plan, the risk culture ratings; and any major themes arising during the year (e.g. whistleblowing, any instances of fraud).

Where relevant, the Head of Internal Audit may make recommendations to the Remuneration Committee in respect of an individuals' performance. It remains the Remunerations Committees responsibility to determine the outcome of such a recommendation.