

Society of Lloyd's

Internal Audit Charter

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1 Document Control

1.1 Issue

This document (Internal Audit Charter and Operating Standards) is issued 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	Internal Audit Manual
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	19/03/2021
Author	Nins Mundair	Senior Internal Audit Manager	Reviewed	18/03/2021
Reviewers	Shane McCauley	Internal Audit Consultant	Reviewed	09/03/2020
Approvers	Ed Thomas	Head of Internal Audit	Approved	19/03/2021
	Audit Committee		Approved	29/03/2021

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
V 4.0	March 2021	Ed Thomas	Complete	March 2022

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 the Internal Audit Charter, which establishes the Purpose, Authority, and Responsibility of the Internal Audit Department.

This document is applicable to the Society of Lloyd's and its subsidiaries and branches.

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 is a formal document that defines the internal audit department's purpose, authority and responsibility. This internal audit charter establishes the Lloyd's Internal Audit department'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; and authorises access to records, personnel, and physical properties relevant to the performance of engagements.

For regulatory requirements, please refer to Section 3.3.2.

2.3 Intended Audience

The Charter is intended for the Society of Lloyd's Audit Committee, where final approval resides. In addition, The Charter can be made available to other key stakeholders to reinforce the positioning and authority of the Internal Audit function. This includes, but not limited to, 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 The Charter, however, the ultimate approval of The Charter resides with the Society of Lloyd's Audit Committee.

3 Internal Audit Charter

3.1 Mission

Internal Audit's mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight 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.

Internal audit's purpose is to provide independent, objective assurance and consulting services designed to improve the organization's operations and aims to enhance, protect and add to the organisational values by:

- 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:

- Individual auditors attest to conformance to the IIA Standards/ Code of Ethics and conflicts of interest;
- A process exists to manage the risk of auditors auditing areas for which they have previously held responsibilities for in the last 12 months;
- 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.
- If the Head of Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence and objectivity.

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, improve an organisation's operations and protect the reputation of the organisation. 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:

- Design and operating effectiveness of the internal governance structures and processes of the organisation;
- The setting of, and adherence to, risk appetite;
- An assessment of the adequacy and effectiveness of the organisation's Risk Management and Compliance functions
- Compliance with policies, procedures, laws and regulations;
- Reliability and integrity of information;
- Means of safeguarding, verifying and accounting for assets;
- 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* (The 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 Culture

The Internal audit function will include within its scope the risk and control culture of the organisation. This will assess whether the processes (e.g. appraisal and remuneration), actions (e.g. decision making), 'tone at the top' and observed behaviours across the organisation are in line with the espoused values, ethics, risk appetite and policies of the organisation. Internal audit will consider the attitude, and assess the approach taken by, all levels of management to risk management and internal control. This should include management's actions in addressing known control deficiencies as well as management's regular assessment of controls.

The Internal audit function is, inherently, part of the culture itself. Despite being independent and objective, internal audit, without realising it, may have adopted the same cultural values and ethics as the rest of the organisation. Internal audit will be conscious of this and will ensure to distance itself from cultural drivers, such as remuneration.

3.7 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.

3.8 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.