



Liverpool Victoria Friendly Society (LVFS) Internal Audit Charter

1 Introduction

This Charter formally defines Internal Audit's (IA) purpose, authority and responsibility. It is subject to annual review and approval by the LVFS Audit Committee. The Internal Audit Director owns this Charter. The Chairman of the LVFS Audit Committee and the LVFS Chief Executive Officer (CEO) co-sponsor this Charter and it is publicly available on the LV.com website.

2 Purpose

IA's role is:

- to provide independent and objective assurance to the Audit Committee and Executive Management on the effectiveness of systems of risk management and internal controls across LVFS and its subsidiaries¹, in order to mitigate key business risks and to assess the sustainability of the organisation;
- to assist the Audit Committees in meeting statutory and regulatory reporting responsibilities and in meeting Corporate Governance best practice; and
- to support operational management by providing best practice advice on risk and control.

Audit activity does not relieve line management of its responsibility for effective control. IA carries out its responsibilities by conducting independent assurance work and reporting, as appropriate, to:

- the LVFS and LVGIG Audit Committees;
- the LVFS and LVGIG Chief Executive;
- Risk Committees;
- Line management with the accountability and capability for ensuring that appropriate action is taken; and
- Subsidiary Boards

3 Independence & Authority

IA reports independently to the Audit Committees on its work. The Internal Audit Director has a direct reporting line to the Chair of the LVFS Audit Committee and LVFS CEO, and also has unrestricted access to the Chair of the LVFS and LVGIG Audit Committees. The Chair of the LVFS Audit Committee and the LVFS Chief Executive approve jointly IA resources and budgets.

IA takes authority from the LVFS and LVGIG Audit Committees through the Committees' approval of IA's Charter and Annual Plan.

In order to carry out IA's mission effectively, the Internal Audit Director and the IA department will have unrestricted access to LVFS and LVGIG records, including Board level information, personnel and premises to the degree necessary and relevant to discharge the Internal Audit Director's duties.

IA, whilst consultative in approach, will be free from influence in determining the scope of internal auditing, performance of work and communication of results. IA will disclose and manage any conflicts of interest that may influence objectivity or independence. IA staff will at all times be objective, constructive and not be influenced by personal, business or other issues, which might impair impartiality. IA shall have no direct

¹ The LVGIG Strategic Partnership (LVGIG) was created in December 2017, following the sale by LVFS of a 49% stake in its UK General Insurance business to Allianz. As LVFS currently has a controlling interest in LVGIG, IA is accountable under a Transitional Services Agreement (TSA) for providing independent and objective assurance over LVGIG. While all LVGIG IA assurance matters are overseen by and reported to the LVFS Audit Committee (given its controlling interest), LVGIG also operates its own Audit Committee. The Internal Audit Director's accountabilities to the LVGIG Audit Committee are the same as those set out in this Charter for LVFS. Similarly the IAD and IA department have the same unrestricted access to LVGIG's records and LVGIG has the same obligations as LVFS to support the Internal Audit Director in effectively discharging their duties. Therefore, while explicit dual reference to LVFS and LVGIG is not given throughout this Charter, the content should be taken as applying to both LVFS and LVGIG.





operational responsibility or authority over any of the activities it reviews, nor will it perform any operational duties for the organisation other than the assurance work it undertakes, the only exception to this being work undertaken in connection with Speak Up² cases.

4 Responsibilities

The Internal Audit Director is responsible for determining IA's strategy and related programme of work so that management and the Board receive an appropriate level of independent assurance coverage across LVFS, and objective audit reports.

The scope of IA's assurance is determined by the business strategy as well as an independent ongoing assessment of the key risks facing LVFS and how well these risks are being managed.

To provide this assurance IA determines, using a risk-based approach:

- whether the assets, reputation, viability and sustainability of LVFS are being safeguarded;
- whether controls are in place and working effectively in accordance with LVFS policies and procedures as well as with applicable laws and regulations;
- that records and reports of LVFS are accurate and reliable

The scope of IA's activities includes consideration of all legal entities, subsidiaries, partnerships, outsourcing and reinsurance arrangements. IA's remit includes:

- the design and operational effectiveness of governance structures and processes of LVFS;
- strategy, values and ethics operating at all levels within LVFS;
- key corporate events including significant business process change, introduction of new products and services, outsourcing decisions, company acquisitions and divestments;
- LVFS' setting of, and adherence to, risk appetite;
- the adequacy and effectiveness of the Risk Management, Compliance and Finance Functions (and IA will exercise informed judgement on when to place reliance on the work of these functions);
- the risk and control culture of the organisation, including whether processes, actions and 'tone from the top' are in line with the values, ethics, desired culture, risk appetite and policies of LVFS;
- the design and control of products, services and supporting processes to deliver fair outcomes for customers in line with conduct regulation;
- information presented to the Board for strategic and operational decision making;
- capital, liquidity and other prudential regulatory risks;
- audit services (as above) for LVGIG relating to responsibilities delivered under the TSA (Transitional Services Agreement)

IA may perform consulting and advisory services related to governance, risk management and control as deemed appropriate. In the event of any 'significant' events, IA may evaluate management's analysis of an 'adverse event' (e.g. fraud or a significant loss).

The IAD reports periodically to the Audit Committees detailing IA's audit plan and its performance relative to this plan. The IAD will also disclose to the Audit Committees any interference and related implications in determining the scope of internal auditing, performing work and/or communicating results.

LVFS operates the '3 Lines of Defence' model, whereby the business as the 1st Line of Defence is responsible for identifying, managing and reporting risks and ensuring that they are controlled. GRM, as the 2nd Line of Defence, has oversight responsibility. The role of IA as the 3rd Line of Defence is to provide independent assurance on the effectiveness of both the first and second lines of defence.

IA will be responsible for the Speak Up policy and the framework for undertaking any related investigations in conjunction with the Head of Special Investigations and the Special Investigation team. IA will also undertake special reviews as requested by the Board, the Audit Committee, the FCA, PRA and management.

² Formerly known as Whistleblowing





5 Audit Committee Responsibilities

The Audit Committees monitor, assess and conclude upon the independence and effectiveness of IA each year. The LVFS Audit Committee approves the appointment or removal of the Internal Audit Director as Head of IA. Where the IAD's tenure exceeds 7 years, the LVFS Audit Committee will explicitly discuss and consider the Internal Audit Director's continued independence and objectivity.

The Audit Committees review and challenge (as necessary) the annual audit plan and the setting of priorities, whilst also confirming that IA is adequately resourced to deliver the plan (see section 6). The Audit Committees also consider all significant findings escalated to it by IA and the adequacy of management's response to these findings.

6 Audit Planning and Resource

IA produces an annual audit plan. This is refreshed quarterly, following discussions with management and having taken into consideration regulatory requirements, risk assessments and the work of external audit. The Internal Audit Director will discuss with, and seek agreement to the audit plan from the Audit Committees. The adequacy and availability of skills and resource to undertake the plan will also be discussed at this forum.

7 Reporting Principles and Practices

Senior management, to whom the findings of an audit will be directed, will be identified at an early stage of the process, and will receive a copy of the audit scope. As issues are identified they will be brought to the attention of line management to enable them to confirm the facts and to commence the development of proportionate and sustainable solutions. On the completion of fieldwork, audit findings will be conveyed to line management in advance of a findings meeting, the purpose of which is to explain and agree the factual accuracy of such findings and corresponding management action to be taken. Following the findings meeting a draft report, incorporating agreed actions, will be issued to the Executive responsible and relevant line management in order for them to confirm factual accuracy and, for the Executive responsible, to provide a management response committing to the clearance of all actions by the agreed target dates. The audit report will then be issued as final. The Chief Executive and the Audit Committee Chair of LVFS and LVGIG receive regular audit update papers ahead of each Audit Committee. All audit reports are accessible to the Board and Executive Management via the reading room within 'Diligent'.

It is management's responsibility to implement actions within the time-scales agreed with IA. It is IA's responsibility to track the implementation of the agreed actions and undertake follow-up work, where considered appropriate, to test the effectiveness of remedial action taken. IA will provide regular reports on the status of outstanding actions to the LVFS and LVGIG Audit Committees and appropriate executive committees. IA will report all overdue actions on a monthly basis to the Executive Committee, including high and medium graded issues raised by the external auditors.

IA will contribute to the annual RSR (Regulatory Supervisory Report) by populating this report with details of all internal audits performed, a summary of material findings, recommendations made and action taken with respect to these findings in line with our regulatory responsibilities. It will include an explanation of the Audit Charter and a description of the forthcoming year's audit plan with a rationale for these audits.

8 Quality Assurance (QA) and Improvement Programme

An individual who is both independent of the delivery of the audit plan and has sufficient experience to meaningfully challenge IA performance, will perform a program of quality assurance and continuous improvement monitoring each year. IA will provide a summary of these Quality Assurance results to the Audit Committee annually.





9 Professional Standards and disclosure

IA will function professionally, adhering to the Code of Ethics, Standards and Guidelines of the Chartered Institute of Internal Auditors (including the CIIA guidance on Effective Internal Audit in the Financial Services Sector second edition September 2017) and of other relevant professional bodies. It will meet the requirements of the FCA, PRA and other regulatory authorities in those areas upon which its work impacts.

IA operates an environment of continuous professional development, to ensure skills and knowledge are maintained to a high standard, supporting professional qualifications so that IA staff possess the necessary competencies to perform their responsibilities.

All reports produced by IA are for internal purposes only. IA also currently provides audit reports for LVGIG where they directly relate to responsibilities delivered under the TSA (Transitional Services Agreement) with them. The LVFS external auditors and Regulators have the right to request access to these reports to allow them to discharge their obligations.

10 Relationship with External Audit

IA will liaise with External Audit on a regular basis to enable the external auditors to optimise their reliance on the work of IA and to discuss issues emerging from their respective work.

11 Independent External Assessments

A qualified, independent reviewer or review team from outside the organisation will conduct a review of IA effectiveness on a (minimum) 5-year cycle in accordance with CIIA standards and recognised best practice.

12 Review of Charter

The Internal Audit Director will assess whether this Charter is appropriate and in alignment with IA objectives on an annual basis. The Internal Audit Director will communicate the results of this assessment to the Audit Committees and seek approval of the Charter each year.

