



Group Internal Audit

GIA Charter V03.00 18 May
2020

Introduction

The Legal & General Group Internal Audit Charter provides a framework within which the Group Internal Audit function ('GIA') sets out its objectives, role, responsibilities and principles for its operation. This Charter is compiled with reference to the Chartered Institute of Internal Auditors ('CIIA') guidance: Effective Internal Audit in the Financial Services Sector (Second Edition, 2017) and the European Confederation of Institutes of Internal Auditing (ECIIA) guidance: Internal Audit in the Insurance Industry (2019).

Role and objectives

The role of GIA is established by the Group Audit Committee ('GAC'), on behalf of the Board of Directors of Legal & General Group plc ('Legal & General').

GIA is an independent and objective assurance and advisory function whose primary role is to support the GAC and Executive Management in the protection of the assets, reputation and sustainability of Legal & General.

GIA also supports Legal & General Executive Management in accomplishing Group objectives by adopting a systematic and disciplined approach to the evaluation and improvement of the design and effectiveness of Legal & General's risk management, control and governance processes.

Scope of work

The scope of GIA's role in Legal & General encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the governance, risk management, and internal control processes in relation to the Group's defined goals, risk appetite and objectives. There is no aspect of Legal & General from which GIA is restricted incorporating into its scope as it delivers on its mandate. Internal control objectives considered by GIA include:

- effectiveness of design and operation of processes and their actual outcomes, assessed against the Group's established values, ethics, risk appetite and policies;

- the appropriateness of the organisation’s risk and control culture, including the attitude and approach taken by all levels of management to risk management and internal control;
- efficiency of operations, and use of resources;
- compliance with laws and regulations;
- reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information; and
- safeguarding of assets.

GIA is responsible for evaluating Legal & General’s processes, including governance and risk management. GIA may also support the Board and Executive Management in providing feedback on the effectiveness of the control environment through attendance at relevant Governance and Risk committees. GIA provides an annual opinion on the control environment, which supports the Board in their related disclosures and duties for their annual report and accounts. In the context of its opinion on the overall control environment, GIA reports to the GAC on whether the organisation’s framework for risk appetite is being adhered to across the organisation.

The scope of GIA’s activities extends to all legal entities forming part of the Legal & General Group and all of the Group’s joint ventures and other business partnerships, outsourcing and reinsurance arrangements. GIA may support Executive Management by performing non-audit services such as consulting, advisory or investigation assignments related to governance, risk management and control, as appropriate. It may also evaluate specific operations, projects or programmes at the request of the Board or Executive Management, or, consistent with its role and objectives, on its own initiative. Such assignments are subject to the approval of the Group Chief Internal Auditor (GCIA) and will only be performed where the assignment does not compromise the independence of GIA and will not cause significant disruption to the scheduled audit plan and there is appropriate skill and capability to undertake the work. The scope of advisory work is expected to include undertaking internal audit activities related to emerging and current corporate events, such as mergers and acquisitions. GIA’s work may also include reviewing relevant post-mortem or ‘lessons learned’ analyses following significant adverse events at an organisation. The role and extent of GIA’s involvement in any events will generally be determined as part of the audit planning process or on an ad hoc basis, where required.

Based on its activity, GIA is responsible for reporting significant risk exposures and control issues identified to the GAC and to Executive Management, including fraud risks, governance issues, organisational culture and other matters needed or requested by the GAC.

GIA is responsible for the development of an internal audit plan, with a corresponding delivery timetable and budget. The plan typically details proposed audits over the next twelve months. GIA reviews the plan regularly and advises the GAC of any material alterations to it. Any impact of resource limitations and significant interim changes are communicated promptly to GAC and Senior Management.

The internal audit plan is developed using a risk-based methodology, including input of executive and non-executive Senior Management. Prior to submission to the GAC for approval, the plan is discussed with appropriate Executive and Senior Management. Any significant deviation from the approved internal audit plan is communicated through the activity reporting process.

In setting its scope, GIA takes into account business strategy and forms an independent view of whether the key risks to Legal & General have been identified, including emerging, prudential, conduct, and systemic risks, and assessing how effectively these risks are being managed. GIA forms an assessment not only of the processes followed by the first and second lines of defence in the organisation, but also the quality of their work. GIA's independent view is informed, but not determined, by the views of management and/or the Risk function. In setting its priorities and deciding where to carry out more detailed work, GIA focuses on the areas where it considers risk to be higher.

GIA makes a risk-based decision as to which areas within its scope are included in the audit plan - it does not necessarily cover all of the potential scope areas every year.

The internal audit plan is developed using a risk-based methodology, including input of executive and non-executive Senior Management. Prior to submission to the GAC for approval, the plan is discussed with appropriate Executive and Senior Management. Any significant deviation from the approved internal audit plan is communicated through the activity reporting process.

Principles of authority

GIA, under strict accountability for confidentiality and safeguarding records and information, is authorised by the GAC and Executive Management for full, free and unrestricted access to the organisation's records, physical property and human resources, pertinent to carrying out any engagement. In addition, GIA has free and unrestricted access to the Board. The Group Chief Internal Auditor ('GCIA') has right of attendance at all or part of any of the Group's governance and risk forums or any other forum in the execution of the GIA remit.

The GCIA, a senior position within the Group, reports functionally to the Chair of the GAC. Administratively, the GCIA reports to the Group Chief Executive. The GAC approves the performance evaluation, appointment, or removal of the GCIA and reviews his/ her annual remuneration each year. There is regular communication between the GAC Chair and the GCIA. In addition, the GCIA will also engage in day-to-day communication with Executive Management.

Professional standards

The work of GIA adheres to the Institute of Internal Auditors' (IIA) mandatory guidance including the Core Principles and International Standards for the Professional Practice of Internal Auditing; the Definition of Internal Auditing; and the Code of Ethics. The mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance. GIA also adheres to guidance issued by the Chartered Institute of Internal Auditors in the UK (CIIA): Effective Internal Audit in the Financial Services Sector.

GIA also considers the IIA's Recommended Guidance, Position Papers and other outputs as applicable to guide its work. In addition, GIA adheres to Legal & General policies and procedures and GIA's own vision, objectives and methodology.

The GCIA is responsible for maintaining internal audit quality assurance standards and associated processes. Quality assurance activity is performed by individuals who are independent of the delivery of audits and who have the standing and experience to meaningfully challenge GIA's performance, judgements and opinions. This includes the use of external resources where appropriate.

Independence and objectivity

The internal audit activity remains free from interference by anyone within Legal & General. This includes the choice of business areas to audit, procedures, frequency, timing, or the content of our reports. This ensures that GIA can maintain a necessary independent and objective perspective.

Internal auditors 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 internal auditors' 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 will not lose their objectivity when forming judgments.

The GCIA confirms to the GAC, at least annually, the organisational independence of internal audit activity.

Operating practices

Operating practices

The operating practices for GIA are set out in the GIA Audit Manual. This overarching document details the ways of operating, including consideration of key GIA activities, risk assessment, skills and resources and other core components of a highly effective GIA function.

Coordination with other parties and functions

GIA liaises and cooperates with the Group's external auditors and key control functions within the Group as appropriate when determining the level of internal audit activity in any business area.

Relationships with regulators

GIA establishes and maintains effective relationships with the Group's regulatory authorities.

Reporting and monitoring

A written Audit Report is issued by the GCIA (or designee) following the conclusion of each audit and is distributed as appropriate. Summaries of audit reports are communicated to the GAC through the GCIA's Audit Committee reports.

Each Internal Audit Report includes corrective action(s) taken or to be taken in regard to the specific findings and recommendations. Business management is responsible for the remediation of GIA Audit Issues. All significant issues remain open until the business areas in question have provided satisfactory evidence of their remedial actions. GIA may also undertake follow-up audits to ensure appropriate resolution of findings. These reports are provided to Executive and Senior Management as appropriate.

The GCIA is also responsible for providing periodically a self-assessment on the internal audit activity. This reviews GIA's activities against the Audit Charter in terms of the purpose, authority and areas of responsibility. It also reviews performance relative to GIA's plans.

In addition, the GCIA communicates to Senior Management and the GAC on GIA's quality assurance and improvement programme, including results of on-going internal quality assurance assessments and external assessments. The GCIA will commission an external effectiveness review to be conducted at least every five years.

Resourcing

The GCIA is responsible for maintaining a professional GIA staff with sufficient knowledge, skills and experience. In addition to its retained team, GIA may supplement the permanent resources with auditors and subject matter experts from outside the organisation who will adopt the principles of GIA's methodology and standards.

Availability of the Internal Audit Charter

In line with CIIA guidance, this Charter is publicly available on the Legal & General Internet site.

Approval

Stephen Licence

Group Chief Internal Auditor

Date: 18 May 2020

Philip Broadley

Audit Committee Chair

Date: 18 May 2020

Planned update

The GCIA will review the Charter and present it to the GAC annually

Version control

Version no.	Date	Status	Changes made by	Change summary
1.00	20/05/14	Approved by the GAC	Original version	-
1.01	24/02/15	Presented to the GAC for approval	Chris Hood	Minor changes and reference updates only
1.01	24/02/15	Approved by the GAC	-	-
1.02	24/02/16	Presented to the GAC for approval	Tim Childs	<p>Clarification added: scope of GIA's activities extends to all legal entities, joint ventures and other business partnerships, outsourcing and reinsurance arrangements</p> <p>Clarification added: GIA coordinates activities with the Group's external auditors and key control functions within the Group</p> <p>Clarification added: GIA establishes and maintains effective relationships with the Group's regulatory authorities</p> <p>Other Minor changes</p>
1.03	24/02/16	Approved by the GAC	-	-
1.04	01/03/17	Presented to the GAC for approval	Tim Childs	Updates to the references to IIA Standards following changes made by the IIA in 2016 to its International Professional Practices Framework. Other minor edits.
1.05	01/03/17	Approved by the GAC	-	-

1.06	27/02/18	Presented to the GAC for approval	Tim Childs	Updates to the scope section to reflect changes in the Second Edition of the CIIA Code (issued September 2017). Updates reflect increased emphasis on GIA's role in evaluating whether the organisation's framework for risk appetite is being adhered to across the business; further clarification of GIA's role in assessing the quality of work of first and second lines of defence; further emphasis on the inclusion of risk and control culture in GIA's scope; and the inclusion in GIA's scope of reviews of post-mortem or 'lessons learned' analyses following adverse events.
02.00	27/02/18	Approved by the GAC	-	-
02.01	27/02/19	Presented to the GAC for approval	Tim Childs	Inclusion of specific reference to Quality Assurance and the independence, standing and challenge exercised by those undertaking this role, which may include external parties. Added clarity on the conditions under which GIA may undertake non-audit assignments.
02.02	27/02/19	Approved by the GAC	-	-
02.03	18/05/20	Presented to the GAC for approval	Tim Childs	Changes to reflect adoption of 2019 guidance issued by the European Confederation of Institutes of Internal Auditing (ECIIA): Internal Audit in the Insurance Industry Guidance. The changes comprise (i) inclusion of a statement that allows GIA to perform a review of any area consistent with its role and objectives on its own initiative; and (ii) a statement on cooperation with the Group's external auditors.
03.00	18/05/20	Approved by the GAC	-	-