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 A China Re Company

Chaucer Insurance Company DAC

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1. Introduction

1.1. Purpose

The purpose of this Charter is to define the purpose, authority and responsibilities of the Chaucer Insurance Company DAC ('CIC') Internal Audit function and establish the principles and framework that govern it.

1.2. Role and Mandate

The primary role of Internal Audit is to help the Board and Executive Management to protect the assets, reputation and sustainability of the organisation.

Internal Audit does this by assessing whether all significant risks are identified and appropriately reported by Management and the Risk function to the Board and Executive Management, assessing whether they are adequately controlled; and by challenging Executive Management to improve the effectiveness of governance, risk management and internal controls.

The Board, its Committees and Executive Management strive to set the right "tone at the top" to ensure support for, and acceptance of, Internal Audit at all levels of the organisation.

The Head of Internal Audit reports functionally to the Audit Committee and administratively to the Group Chief Financial Officer / CIC Board Chairman.

1.3. Professional Standards

Internal Audit governs itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Audit, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). Internal Audit also seeks to comply with the Internal Audit Financial Services Code of Practice and other relevant industry standards.

1.4. Independence and Objectivity

Internal Audit is independent of the activities which it audits to ensure that the judgements essential to its proper conduct and impartial advice to the Audit Committee are unbiased. Internal auditors do not subordinate their judgment on audit matters to others. Objectivity and independence are managed at the individual auditor, engagement, functional, and organisational levels. At least annually, Internal Audit assesses and confirms its objectivity and organisational independence.

1.5. Access

It has unrestricted access to all the records, assets, personnel and premises and has the authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. As such, Internal Audit is accountable for maintaining appropriate measures for confidentiality and safeguarding of company records.

Internal Audit have the right to attend and observe all or part of Executive Committee meetings and any other key management decision making fora.

1.6. Scope

This Charter applies to all areas of CIC and must be followed when conducting an internal audit. The Internal Audit function covers all processes and activities of CIC.

This Charter should be read in conjunction with the Terms of Reference for the CIC Audit Committee.

2. Charter Detail

2.1. Internal Audit Objectives

The objectives of the Internal Audit function are:

- to provide independent reasonable assurance on the adequacy of the governance and controls around the risk management framework and related risk management activities;
- to provide independent reasonable assurance on the adequacy of internal controls employed within CIC's processes, procedures and systems;
- to report internal control deficiencies to the Audit Committee;
- to assist Management in responding to control deficiencies and addressing areas of improvement;
- to monitor the status of control improvements required;
- to provide reasonable assurance on the effectiveness of the systems of internal control employed by CIC. Where inefficiencies are identified, these are also reported, and recommendations are raised where appropriate;
- to provide advice where risk management requires improvement;
- to promote Management action to address agreed areas of improvement; and
- to offer assistance, where appropriate, in identifying business improvements but whilst ensuring Management retains ownership of risks and controls.

2.2. Internal Audit Roles and Activities

Internal Audit aims to provide:

- reasonable assurance to the Audit Committee and Board on the adequacy of the governance and controls over effectiveness of the risk management framework and processes, and also the effectiveness of the business' system of internal controls;
- cost effective, business focussed recommendations to address identified weaknesses or issues and assist in implementation of these if required;
- monitoring process for recommended remedial actions to ensure prompt implementation;
- communicating with the external auditors to ensure that issues or concerns arising from the external audit are considered when planning the internal audit work programme and ensuring that actions raised in management letters are completed in a timely and appropriate manner;
- regular interaction with Risk Management, Compliance, Finance and the Controls and Data Assurance teams to ensure activities are coordinated;
- information and assurance to regulators, as required;
- investigation of irregularities or frauds, to the extent that Internal Audit resources allow;
- coordination of external assurance providers where commissioned by Internal Audit or by the business, to ensure efficient and effective use of resource and a risk focussed approach; and
- advisory skills as requested by Management and where independence is not compromised, e.g. to facilitate the risk management process and introduction of appropriate controls for a new system or for an existing system with recognised shortfalls.

2.3. Internal Audit Methodology

Internal Audit adopts a risk-based approach to the audit process by:

- understanding CIC's key strategic and operational objectives;
- working closely with Risk functions to identify key risks to CIC achieving its objectives and understanding the controls in place to manage these risks; and
- ensuring the audit effort is focussed on assessing the effectiveness and efficiency of the key controls, which in turn address the key risks.

2.4. Managing Fraud

Managing the risk of fraud is the responsibility of Management. Management is responsible for implementing appropriate measures to ensure that an adequate system of control has been designed and is operational over all activities. Internal Audit is responsible for evaluating the controls designed within the system that reduce the risk of fraud or abuse of the company's assets.

2.5. Escalation of Audit Issues and Reporting

All audit issues are reflected in the audit report with clearly assigned ownership and agreed timeframes of resolution. Any unresolved audit issues are reported to the respective risk owners, to the Executive team and to the Audit Committee on a regular basis. Recommended actions which have not been agreed by the business are equally reflected in the audit report and highlighted to the Audit Committee's attention. Reporting will also cover instances where audit issues have been closed after Management have implemented a different solution to that originally agreed and reported.

3. Responsibilities

The Audit Committee, on behalf of the Board, is required to review the authority, scope of work and resources of Internal Audit on at least on an annual basis.

4. Quality assurance

Internal Audit operates a quality assurance programme that covers all aspect of the activity through a combination of:

- Regular review of annual audit planning and risk assessment with Group Internal Audit
- Regular review of individual audit scope and findings within the team and with Group Internal Audit as required
- Use of third party contractors to provide independent assessments
- Annual self-assessment of IA performance against the IIA Standards and the Financial Services Code of Practice
- Periodic (approximately every 5 years) external assessment of the effectiveness of the function. This can be on a stand-alone basis or as part of the wider Group Internal Audit function.

5. Monitoring of the Charter

This Internal Audit Charter will be reviewed at least annually, and the process will require:

- Both the Charter author (Head of Internal Audit) and the Charter owner (CIC Audit Committee) to review the Charter.
- The author to thoroughly review the content and ownership of tasks within the Charter to ensure that these are all still in line with the organisational structure and strategic objectives of the business.
- The periodic review of the Charter to be evidenced through an update to the front sheet with both the author and owners needing to update the review details and provide hard-copy signatures for their completed reviews.
- The signed hard copies of the reviewed Charter to be scanned to electronic format and uploaded to the central policy repository to replace the old version.