

# Internal Audit Charter

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**beazley**

The logo for Beazley, featuring the word "beazley" in a bold, lowercase serif font. A thick, black, curved underline is positioned beneath the text, starting under the 'b' and ending under the 'y'.

### Document history

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Created in 2010 and reviewed annually				
2021	03/10/2021	Various	Update from IIA three lines of defence model for independence and definition of three lines.	Rebecca Dellert / Nick Fryer / John Beauchamp
2022	01/09/2022	Various	Updates related to 'other project activities' i.e., consulting	John Beauchamp
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### Document review and approval

Version	Date	Name	Reviewer (Y/N)	Approver (Y/N)	Checked against regulatory requirements
2021	04/11/2021	plc Audit and Risk Committee	Y	Y	Y
2021	04/11/2021	BICI Audit & Risk Committee	Y	Y	Y
2021	04/11/2021	BFL Audit Committee	Y	Y	Y
2021	04/11/2021	BAIC Audit & Risk Committee	Y	Y	Y
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2023	06/11/2023	BICI Audit & Risk Committee	Y	Y	Y
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2023	06/11/2023	BAIC Audit & Risk Committee	Y	Y	Y
2023	12/12/2023	BIdac Board	Y	Y	Y

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## **1 About this document**

### **1.1 Purpose**

- 1.1.1 The Internal Audit Charter (known as the 'Charter' from here out) defines the purpose, authority and responsibility of the internal audit activity.

### **1.2 Audience**

- 1.2.1 This document is for the reference of management and the group's Audit Committees (encompassing the Beazley plc Audit Committee, Beazley Furlonge Ltd - BFL Audit Committee, Beazley Insurance dac - BIdac Audit Committee, Beazley Insurance Company, Inc. - BICI Audit & Risk Committee and Beazley America Insurance Company, Inc. – BAIC Audit & Risk Committee collectively known as the group's 'Audit Committees' throughout this document).

### **1.3 Document ownership**

- 1.3.1 This document is owned by Internal Audit.

### **1.4 Document location**

- 1.4.1 This document is stored in the key document repository (KDR) maintained by Compliance as it is a key document for Solvency II purposes and also independently maintained on the restricted Internal Audit SharePoint Online. This document can also be found on the group's public website.

### **1.5 Document review**

- 1.5.1 This document shall be reviewed and approved by the group's Audit (and Risk) Committees annually as delegated by their respective Board.

## **2 Internal Audit Charter**

### **2.1 Mission of Internal Audit**

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

### **2.2 Definition and purpose of Internal Audit**

- 2.2.1 Internal auditing is an independent, objective level of assurance over certain defined types of activity, designed to add value and improve the group's operations. Internal Audit helps the group accomplish its objectives by applying a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 2.2.2 The purpose of Internal Audit is to provide the Board of Directors and Executive Committee with independent and objective assessments of the design and operating effectiveness of the system of internal controls covering the integrity of the group's financial statements and reports, compliance with laws, regulations, and corporate policies and the effective management of risks faced by the group in executing its strategic and tactical operating plans.
- 2.2.3 Internal Audit supports the Board of Directors and Executive Committee in managing the assets, reputation and sustainability of the group.
- 2.2.4 Internal Audit supports the group's three lines of defence model as the third line of defence. In summary the three lines of defence model includes, the first line supporting policyholders with insurance products and claims handling along with the various support functions. The group's second line provides assistance with

managing risk, such as: compliance with laws, regulations, and acceptable ethical behaviour; internal control; information and technology security; sustainability; risk management, etc.

2.2.5 Internal Audit seeks to provide independent and objective assurance and advice to the adequacy and effectiveness of governance and risk management of the group.

## 2.3 Authority of Internal Audit

2.3.1 Internal Audit has the authority, derived from the Audit Committees, to conduct both **assurance engagements** and **consulting services** to support the group's operations and shall have full and complete access to any of the group's records, physical properties, systems and personnel relevant to the performance of an audit. Management should support Internal Audit by informing Internal Audit of any facts relevant for the performance of their duties.

2.3.2 Internal Auditors are authorised to:

- Have full, free and unrestricted access to members of management, books and records, physical properties, vendors, and other sources of information relevant to the performance of engagements to conduct objective evaluations of the group's business practices.
- Determine allocation of resources, set frequencies, select subjects, determine the scope of work, and apply the techniques required to accomplish audit objectives effectively and efficiently.

2.3.3 Documents and information given to Internal Audit will be handled in a prudent manner and retained in accordance with the group's Record Management policy<sup>1</sup> and Internal Audit's record management practices defined in the Internal Audit Procedures.

2.3.3.1 Documentation for any activity should be retained for an appropriate period in a restricted access location.

2.3.3.2 Access to the network folders and SharePoint Online with Internal Audit work are restricted to Internal Auditors only with regular reviews of access undertaken by the Group Head of Internal Audit (or a delegate). There are individuals with read only access provided for information sharing and data analytics dashboards.

## 2.4 Responsibility, accountability and expectations

2.4.1 Internal Audit has the following responsibilities, accountability and expectations:

Area	Detail
<i>Internal Audit Charter</i>	<ul style="list-style-type: none"> <li>- Undertake an annual review of the Charter (including reviewing the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing (including the Code of Ethics known from here out as the 'Standards') and the Financial Services Code.</li> <li>- Represent to the Audit Committees that Internal Audit work has been undertaken within conformance (or without if applicable) of the Standards at least annually.</li> <li>- Present the Charter to the Audit Committees for approval at least annually.</li> </ul>
<i>Resourcing and budget</i>	<ul style="list-style-type: none"> <li>- Ensure there is sufficient resource (in number and quality) to achieve the annual Internal Audit plan.</li> </ul>

<sup>1</sup> Found in KDR maintained by Compliance.

Area	Detail
	<ul style="list-style-type: none"> <li>- Maintain professional staff with sufficient knowledge, skills, experience and professional certifications to meet the requirements of this Charter.</li> <li>- Secure approval from the Audit Committees of the annual Internal Audit budget and resource plan.</li> </ul>
<i>Developing the annual audit plan</i>	<ul style="list-style-type: none"> <li>- Maintain an audit universe to demonstrate Internal Audit's coverage of the group's business and operations and the key driver for the creation of the annual Internal Audit plan.</li> <li>- Develop a flexible risk-based annual Internal Audit plan. This shall stem from at least an annual risk assessment as part of the audit universe refresh. This risk assessment will include input from the Executive and Audit Committees.</li> <li>- Regularly reassess the content of the Internal Audit plan to ensure it stays relevant and reflects the current risk profile of the group.</li> <li>- Secure the approval of the Audit Committees for the plan and any significant/material changes to it. Other changes may be reported at the discretion of the Head of Internal Audit.</li> <li>- Liaise with other assurance providers, such as Risk Management, Compliance and external audit to ensure that assurance engagements are mutually supportive and efficient. In particular, Internal Audit does not seek to unnecessarily duplicate any other source of assurance.</li> <li>- Communicating with and to senior management and the Audit Committees trends and emerging issues that could impact the group, as appropriate.</li> </ul>
<i>Audit activity</i>	<ul style="list-style-type: none"> <li>- Internal Audit activities should be conducted in accordance with the Internal Audit Procedures which ensures conformance with the Standards.</li> <li>- Any instances of risk acceptance by management will be communicated in individual reports and in our annual paper.</li> </ul>
<i>Executing the plan</i>	<ul style="list-style-type: none"> <li>- Draw on appropriate skills to support each audit activity within the Internal Audit plan.</li> <li>- Conduct the comprehensive, risk-based audit plan (risk assessed at least annually and annually approved by the Audit Committees).</li> </ul>
<i>Reporting</i>	<ul style="list-style-type: none"> <li>- Internal Audit will provide regular updates to the Executive and Audit Committees on: <ul style="list-style-type: none"> <li>▪ the status and results of the annual Internal Audit plan and the sufficiency of resources where applicable;</li> <li>▪ a summary of the results of and conclusions from Internal Audit's activities; and</li> <li>▪ an assessment of the adequacy and effectiveness of the group's systems of risk management and internal control.</li> </ul> </li> <li>- Internal Audit will report findings from audits and reviews conducted, together with management's committed action plans, to management and to the Executive and Audit Committees.</li> <li>- Internal Audit will produce an annual report to the Audit Committees summarising Internal Audit's work over the course of the preceding year. This will include an assessment of the overall effectiveness of the governance, and risk and control framework of the group, conclusions on whether the group's risk appetite framework is being adhered to together with an analysis of themes and trends emerging from Internal Audit work and impact on the group's risk profile.</li> </ul>
<i>Follow up</i>	<ul style="list-style-type: none"> <li>- Identify controls that are deficient, assess the adequacy of management's action plans to strengthen them and monitor management's remediation efforts.</li> <li>- Administer a tracking system that monitors completion of actions by the target dates set by management with Internal Audit approval.</li> </ul>

Area	Detail
<i>Quality Assurance</i>	<ul style="list-style-type: none"> <li>- Establish a quality assurance programme by which Internal Audit assures the effectiveness of the operation of its activities.</li> <li>- The results of the quality assurance programme will be presented at least annually to the Audit Committees.</li> <li>- The Internal Audit function should be subject to an independent and objective external quality assessment at least every five years.</li> <li>- Ensure emerging trends and successful practices in internal auditing are considered as part of continuous improvement to Internal Audit practices.</li> </ul>

2.4.2 Internal Audit is responsible for considering where fraud risk is present within the business (generally done during planning an audit) and responding by auditing the controls of that area, evaluating the potential for the occurrence of fraud and how the group manages fraud risk<sup>2</sup> through periodic risk assessment.

2.4.3 It is not Internal Audit's responsibility to prevent fraud - this is the responsibility of management as the first line of defence.

## 2.5 Organisation

2.5.1 Organisational independence is undertaken by the Audit Committees approving:

- this Charter;
- the risk based annual Internal Audit plan;
- the Internal Audit budget<sup>3</sup> and resource plan; and
- approval of appointment and / or removal of the Group Head of Internal Audit.

2.5.2 The Audit Committees receive updates on Internal Audit's performance relative to the Internal Audit plan and significant updates or changes to scope and resources.

2.5.3 In addition, the Group Head of Internal Audit:

- has direct and unrestricted access to senior management, the Audit Committees and the Executive Committee (the Group Head of Internal Audit or a delegate attends Audit Committee meetings and some other committee / board meetings);
- reports (directionally and accountability) to the Chair of the Beazley plc Audit Committee<sup>4</sup> and administratively to the group's Chief Executive Officer; and
- will confirm to the Audit Committees, at least annually, the independence of Internal Audit.

## 2.6 Independence and objectivity

2.6.1 Maintaining Internal Audit's independence and objectivity is essential to its proper conduct and its ability to provide impartial information and advice to management. To ensure Internal Audit's independence and objectivity:

- the Audit Committees receive, and review reporting generated by Internal Audit.
- the Audit Committees review the scope and nature of the work of the Internal

<sup>2</sup> Refer to the Standard 2120.A2.

<sup>3</sup> The budget includes remuneration of Internal Audit. Remuneration of Internal Audit falls under the group's Remuneration policy. The Remuneration policy can be found on the KDR.

<sup>4</sup> The Group Head of Internal Audit also reports to the Chair of the BIDac Audit Committee.

- Audit function to support Internal Audit's confirmation of independence;
- the Group Head of Internal Audit has regular private sessions with the Chair of the Beazley plc Audit & Risk Committee;
  - if Internal Audit recruits a member of staff from within the group or uses a seconded auditor from a different function within the group, the auditor will be prohibited from auditing the area where they came from or processes and controls, they previously performed for a period of 12 months;
  - if there are independence issues with the Group Head of Internal Audit these will be overseen by the Chair of the Audit Committees<sup>5</sup>; and
  - Internal Auditors shall have no direct operational responsibility or authority over any business activities the Internal Audit function audits. Accordingly, Internal Audit shall not develop nor install systems or procedures, prepare records or engage in any other activity which would normally be audited by the function.
- 2.6.2 Internal Auditors may undertake consulting services provided the nature of those consulting services do not impair objectivity of the area in question. This will be overseen and managed by the Group Head of Internal Audit related to staff assignments.
- 2.6.3 Internal Audit independence does not imply isolation from the first and second lines of defence. There must be regular interaction between Internal Audit and management to ensure the work of Internal Audit is relevant and aligned with the strategic and operational needs of the group.
- 2.6.4 Should Internal Auditors have potential impairments to independence or objectivity relating to assurance engagements or consulting services, disclosure must be made to the engagement stakeholder, prior to the assignment of their role on the engagement.
- 2.6.5 Auditors are obliged to declare to the Group Head of Internal Audit actual, potential or potentially perceived conflicts of interest as they become aware and at least annually through the annual conflict of interest declaration.
- 2.6.6 Any potential impairment to independence and objectivity must be reported to the Audit Committees. Reasons may include, but are not limited to:
- personal conflict of interest (e.g. consulting services and an assurance engagement being provided by same auditor or the auditor undertaking management's first line of defence role);
  - scope limitation or restriction of access to records, personnel or properties requested by business head; and
  - resource limitations.
- 2.6.7 Material impairment to the independence and objectivity relevant to either Internal Audit, or an Internal Audit co-source provider is reported to the Audit Committees when and if an incident arises.

## **2.7 Rotation of audit staff**

- 2.7.1 The Group Head of Internal Audit (or delegate) rotates Internal Auditors between audits to maintain independence and objectivity when assessing the group's control environment. There is a rotational component of audit assignments to ensure that auditors do not compromise their professional scepticism through

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<sup>5</sup> Specifically, the Audit Committees with non-executive director chairs.



'over auditing' to ensure no staff members exclusively audit business areas or processes in continuous succession.

- 2.7.2 The Group Head of Internal Audit also aims to ensure that Internal Audit maintain an appropriate balance of staff with corporate knowledge and experience of auditing or working in the group, compared to staff with audit experiences gained externally (i.e. professional backgrounds, qualifications, strengths and experience).
- 2.7.3 In circumstances where the Group Head of Internal Audit's tenure exceeds seven years, the Group Head of Internal Audit should be subject to an annual assessment of their independence and objectivity by the Audit Committees.
- 2.7.4 Annually a skill assessment of Internal Audit staff is undertaken to understand their insurance industry experience and audit related experience.

## **2.8 Nature of work**

- 2.8.1 Internal Audit is approved to deliver assurance engagements to the group and external stakeholders (such as external auditors and Lloyd's).
- 2.8.2 Internal Audit is also approved to provide consulting services included within the annual audit plan. Additional consulting services, outside the below definition will be subject to approval by the Audit Committee chair on each occasion.
- 2.8.3 *Definition of Assurance engagements:*
- 2.8.4 In this Charter the definition of assurance engagement is: **audits, high-level reviews or spotlight reviews** whose scope and frequency has been set by the internal audit function and which provide independent assurance over the design and operation of controls, processes and governance through the objective examination of evidence (including the risk management framework).
- 2.8.5 *Definition of Consulting services:*
- 2.8.6 In this Charter the definition of consulting services is: guidance over controls and processes that are still being designed or are undergoing significant change and have yet to be implemented into business-as-usual. This work may be referred to as pre-implementation engagement, and may include in-flight project activities, business change, and emerging risks etc.
- 2.8.7 Consulting services should only be provided:
- on processes, policies and procedures and changes in the design of internal controls under an agreed upon scope document;
  - Internal Audit's consulting services should add value to the group; and
  - subject to 1) resource and skill set availability; and 2) the ability to maintain independence.
- 2.8.8 Details of consulting services are reported to the Audit Committees similar to assurance engagements.

## **2.9 Due professional care**

- 2.9.1 Internal Audit exercises due professional care regarding the following areas:
- extent of work needed to achieve the objectives set;
  - relative complexity, materiality or significance of matters;
  - adequacy and effectiveness of governance, risk management and control processes;
  - probability of significant errors, fraud or noncompliance with regulations; and

- cost of assurance in relation to potential benefits.
- 2.9.2 In exercising due professional care, Internal Audit should consider the use of technology-based audit and other data analysis techniques in planning and executing their work.
- 2.9.3 Internal Audit should be alert to the significant risks that might affect objectives, operations, or resources, however, Internal Audit work is not guaranteed to identify all significant risks.
- 2.9.4 Internal Audit should adhere to the group's relevant policies and procedures, unless such policies and procedures conflict with the Internal Audit charter. Any such conflicts will be resolved or otherwise communicated to Executives and / or the Audit Committees.

## **2.10 Scope and role**

- 2.10.1 The scope of Internal Audit covers wholly and majority owned subsidiaries by the group (globally).
- 2.10.2 The role of Internal Audit is to determine whether the group's risk management, control and governance processes, as designed and represented by management, are adequate and functioning in a manner to ensure:
- risks, other than professional risk, are appropriately identified and managed;
  - significant financial, managerial and operating information is accurate and timely;
  - operations are effective and efficient;
  - significant plans and objectives are achieved through well-controlled processes;
  - employees' actions are consistent with corporate policies, the Standards, procedures and applicable laws and regulations; and
  - significant legislative or regulatory issues impacting the group are recognised and addressed properly.
- 2.10.3 In addition to assurance engagements and consulting services, the Audit Committees or Executive Committee may request Internal Audit to:
- carry out special reviews;
  - assist in the investigation of significant suspected fraudulent activities<sup>6</sup>; and
  - investigate complaints directed to the Audit Committees.
- The results of which would be communicated to management or the Audit Committees.
- 2.10.4 The Group Head of Internal Audit is required to adhere to relevant regulatory requirements, including, but not limited to, for example the Prudential Regulatory Authority (PRA), the Financial Conduct Authority (FCA), Connecticut Department of Insurance, Central Bank of Ireland (CBI), etc.
- 2.10.5 In order to meet regulatory control function requirements (for example the PRA/FCA Senior Management Function, and the CBI's Pre-Approved Control Function Regime) the Group Head of Internal Audit engages with regulators in an open and cooperative way and discloses to the appropriate regulator anything that the regulator requires or would reasonably expect.

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<sup>6</sup> This may include instances that fall under the group's Whistleblowing policy.

2.10.6 The Group Head of Internal Audit provides details of interaction with regulators to the Chief Executive Officer, the Chairs of the Audit Committees and in committee papers, as applicable.

## 2.11 Professionalism

2.11.1 Internal Audit activity will govern itself by adherence to the Chartered Institute of Internal Auditors' (CIIA) mandatory guidance including the definition of Internal Auditing<sup>7</sup> and the Standards.

2.11.2 Internal Audit staff have a responsibility to conduct themselves so that their good faith and integrity are not open to question. The Code of Ethics issued by the IIA detail that Internal Auditors must act with integrity, objectivity, confidentiality and competency. See below for further elaboration:

Theme	Description
Integrity	The integrity of Internal Auditors <sup>8</sup> establishes trust and thus provides the basis for reliance on their judgement.
Objectivity	Internal Auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors make a balanced assessment of the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
Confidentiality	Internal Auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
Competency	Internal Auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

### Assurance principles

2.11.3 Internal Audit activity will:

- comply with the Standards and with relevant regulatory, statutory and market requirements including Lloyd's;
- deliver the approved annual Internal Audit plan;
- cover the scope defined for each audit, high-level review, or spotlight review;
- effectively and efficiently gather and record sufficient evidence to support findings;
- clearly present and communicate findings and recommendations; and
- effectively and efficiently apply the skills of Internal Audit.

### Training and qualifications:

2.11.4 It is important for Internal Audit to stay informed about improvements and current developments in the Standards (including objectivity, fraud, etc.), procedures and techniques. As such, Internal Audit staff are allocated a budget (days and time) for training to ensure the skill sets for current audit techniques, policies and procedures are continuously enhanced.

2.11.5 Training is generally undertaken to ensure Internal Audit staff with qualifications meet their continuing educational / learning requirements, and also stay abreast

<sup>7</sup> "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." From [www.iaa.org.uk](http://www.iaa.org.uk), on 20 October 2015.

<sup>8</sup> Collectively referring to the group's Internal Audit function.

of ongoing changes (i.e. cyber / IT security, Lloyd's, etc.) and market impacts on internal auditing. Staff development is also accomplished by on-the-job training, updates from professional organisations on auditing, insurance and other hot-topics, secondments and shadowing.

- 2.11.6 There is a tracker monitored by the Group Head of Internal Audit related to trainings Internal Audit staff have undertaken and the status of any qualification(s). Any issues / gaps in training or qualifications will be addressed by the Group Head of Internal Audit as needed.