



Internal audit policy

00132



Disclaimer

This document is a best effort to describe accurately the subject at the time of publication. Hiscox Ltd makes no representations or warranties with respect to the contents hereof and, specifically disclaims any implied warranties of satisfactory quality or fitness for any particular purpose. The material contained herein is confidential and proprietary to Hiscox Ltd and may not be reproduced, published or disclosed to others without expressed authorisation of Hiscox Ltd.

Document control

Key document summary

Document reference	00132
Document status	Approved
Owner	Chris Hood, Head of Group Internal Audit
Approver	Hiscox Ltd Audit Committee
Date approved	16 November 2016 (v1.3)
Review date	November 2017

Document review history

Date	Version and status		Reviewer(s)	Action / comment
8-Aug-2012	1.0	Reviewed	Chris Hood	No material changes made.
17-Sept-2013	1.1	Reviewed	Chris Hood	Further clarification in line with the Chartered Institute of Internal Auditors' July 2013 guidance on Effective Internal Audit in the Financial Services Sector approved by Hiscox Ltd Audit Committee in November 2013.
19-Dec-2014	1.2	Reviewed	Luke Patterson	No material changes made. Update and clarification in line with IIA guidance.
31-Oct-2016	1.3	Reviewed	Chris Hood	Updated to reflect changes to the structure, positioning and approach of Internal Audit, and those changes recommended from the PwC Effectiveness Review.
16-Nov-2016	1.3	Approved	Hiscox Ltd Audit Committee	Changes approved.

Contents

1. Introduction	4
1.1. Purpose	
1.2. Ownership, approval and periodic review	
1.3. Application and scope	
1.4. Glossary of terms	
2. Authority and access	5
3. Confidentiality	5
4. Independence and objectivity	5
5. Responsibilities and accountability	6
6. Availability of the Internal audit policy	7
7. References	8

Introduction

1.1. Purpose

The purpose of the 'Internal audit policy' is to set out the framework within which Internal Audit provides objective and independent assurance and advice to the Group Audit Committee, and to the Boards of Directors of the companies within the Group, over the processes and systems of internal control and risk management operating in the Group.

1.2. Ownership, approval and periodic review

This policy, which is owned by the Head of Group Internal Audit, will be reviewed at least annually, and any material changes will be independently considered and approved by the Hiscox Ltd Audit Committee.

1.3. Application and scope

The scope of the 'Internal audit policy' covers all aspects of the Group and its activities so as to enable it to meet its primary objective. This includes, but is not limited to, the assessment of systems, processes, controls, information and operations relating to the following:

- business units and entities that form part of the Group, and any other related interests
- IT systems and services
- risk management and assessment
- finance and accounting
- compliance and regulatory operations and oversight
- corporate governance
- Group planning and strategy, including project management
- human resources
- management information
- third party relationships
- ethics related objectives, programs and activities, and risk and control culture
- other functions that support the operation and infrastructure of the Group, including regulatory-related models and frameworks.

Inherent within Internal Audit's approach is the consideration of significant errors, fraud, non-compliance, culture, and other exposures when developing the engagement objectives.

The scope of Internal Audit's activities extends to all legal entities and business units forming part of the Hiscox Group. Internal Audit may support Executive Management by performing advisory services related to governance, risk management and control, as appropriate. It may also evaluate specific operations at the request of the Board or Executive Management, as appropriate. In conducting any such advisory activity, Internal Audit is mindful not to impact objectivity and independence of any subsequent Internal Audit work, by ensuring appropriate safeguards are in place for this work. The scope of such advisory work may include the investigation of any perceived or actual significant risk or irregularity, or undertaking internal audit activities of emerging and current corporate events (for example, an acquisition or divestment, or a significant regulatory or legislative change). The role and extent of Internal Audit's involvement in such events will generally be determined as part of the audit planning process or on an ad hoc basis, where required.

The scope of the 'Internal audit policy' does not extend to the following:

- carrying out any operational duties for the Group, other than those required for Internal Audit's own operation or in specific circumstances where it may be expedient for Internal Audit to do so; and
- exercising executive or managerial authority or functions, except where they relate to the Internal Audit function itself.

Internal Audit is responsible for the development of an internal audit plan ('the plan'), with a corresponding budget. The plan typically details proposed audits over the next 12 months. Internal Audit reviews the plan regularly and advises the Hiscox Ltd Audit Committee of any material alterations to it. Any impact of

resource limitations and significant interim changes should be communicated promptly to the Hiscox Ltd Audit Committee and Executive Management.

The plan is developed using a risk-based approach, including input from Executive Management. Prior to submission to the Hiscox Ltd Audit Committee for approval, the plan is shared with Executive Management.

In setting its plan scope, Internal Audit takes into account business strategy and forms an independent view of whether the key risks to the Group have been identified, including emerging, critical, and systemic risks, and assessing how effectively these risks are being managed. Internal Audit's view is informed, but not determined, by the views of management and or the Group's Risk function. In setting its priorities and deciding where to carry out more detailed work, Internal Audit focuses on the areas where it considers risk to be higher. It makes a risk based decision as to which areas within its scope are included in the plan; it does not necessarily cover all of the potential scope areas every year.

1.4. Glossary of terms

For a full glossary of terms used in this document, the reader should refer to the 'Glossary of terms' [2] on the Solvency and Regulatory Change section of Hiscox's SharePoint site. All terms defined in this glossary will be used in this document without further definition.

Authority and access

In carrying out its duties and responsibilities, Internal Audit is entitled to:

- full and unrestricted access to all of the Group's activities, records, property and information
- full and free access to the Hiscox Ltd Audit Committee, and other subsidiaries' Audit Committees
- allocate and apply resources, scope of work and audit techniques, set frequencies and select appropriate subjects in order to meet its objectives
- the assistance of staff across the Group where necessary to fulfil its objectives.

In addition, Internal Audit has free and unrestricted access to the Board and other subsidiaries' Boards. The Head of Group Internal Audit has the right of attendance at all or part of any of the Group's governance and risk forums, or any other forum or committee in the execution of Internal Audit's remit.

The Head of Group Internal Audit, a senior position within the Group, reports functionally to the Chair of the Hiscox Ltd Audit Committee. Administratively the Head of Group Internal Audit reports to the Group Chief Financial Officer. The Hiscox Ltd Audit Committee approves the performance evaluation, appointment, or removal of the Head of Group Internal Audit, and reviews his / her annual remuneration each year.

Confidentiality

In fulfilling its objectives, Internal Audit will handle and safeguard all confidential information with which they come into contact in the same prudent manner as those members of staff who would normally be accountable for them.

Independence and objectivity

Internal Audit is independent of the activities that it audits, in order to ensure unbiased judgements and impartial advice to the Hiscox Ltd Audit Committee and to management. In order to ensure this independence and objectivity, the Internal Audit team members report directly to the Head of Group Internal Audit, who reports directly to the Chair of the Hiscox Ltd Audit Committee. Where Internal Audit is unable to provide independent and objective assurance in a particular circumstance, a third party or parties with the requisite expertise may be engaged.

In order to fulfil its responsibilities efficiently and effectively, Internal Audit may also co-operate with other functions or assurance providers within the Group (for example, Group Compliance or technical underwriting reviews). Where such co-operation takes place, the work will be planned and carried out in such a way as to ensure that the independence and objectivity of Internal Audit remain safeguarded.

Professional standards

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

Internal Audit also considers the IIA's Practice Advisories, Practice Guides, and Position Papers as applicable to guide its work. In addition, Internal Audit adheres to the Group's policies and procedures and its own objectives and methodology.

Responsibilities and accountability

The Head of Group Internal Audit is responsible to the Hiscox Ltd Audit Committee for the following:

- developing an annual audit plan based on an understanding of the risks to which the Group is exposed, which shall be submitted annually to the Hiscox Ltd Audit Committee for review and approval. Prior to submission to the Hiscox Ltd Audit Committee for approval, the plan will be discussed with Executive Management. The Head of Group Internal Audit will regularly review this plan to ensure it continues to remain fit for purpose and to propose any changes deemed necessary
- implementing the audit plan, as approved by the Hiscox Ltd Audit Committee, and reporting to them on its progress
- recruiting, training and developing an internal audit team with sufficient knowledge, skills, and experience, in order to deliver Internal Audit's objectives, and ensuring that they act with integrity. In addition to the in-house team, Internal Audit may supplement permanent resources with suitably independent auditors and subject matter experts from outside the Group who will adopt the principles of Internal Audit's methodology and standards
- This may include the use of secondments or short term placements, or the hosting of internal graduate placements from time to time as a part of the Group's graduate development programme. The Head of Group Internal Audit will be responsible for ensuring that independence and objectivity are maintained in all such instances
- reporting to the Hiscox Ltd Audit Committee and to relevant senior management at least four times per year on the following matters:
 - the status of the annual audit plan
 - issues, findings and recommendations arising from the audits and reviews carried out
 - the status of outstanding and overdue actions arising from Internal Audit's recommendations
 - Internal Audit team resourcing
 - proposed changes to Internal Audit's policies or methodology
 - any others matters of interest
- providing an assessment to the Hiscox Ltd Audit Committee of the control environment at least annually, which supports the Board in their related disclosures for the annual report and accounts.
- arranging for the issuance of written audit reports following the conclusion of each audit to the appropriate distribution. Each audit report will include actions related to the specific findings and recommendations. Business management is responsible for the remediation of these actions, which will remain open until the business areas in question have provided satisfactory evidence of their remediation. Internal Audit may undertake follow up audits to ensure appropriate resolution of findings
- establishing, documenting and updating Internal Audit's methodology and policies, including a competency framework to assess and develop the appropriate skills for the Internal Audit team members, in order to meet the required technical and professional standards
- liaising regularly with, and taking into account the information from, the Group's Risk Management function led by the Chief Risk Officer
- liaising with the external auditors as appropriate, in order to provide more efficient audit coverage for the Group where possible
- establishing and maintaining effective relationships with the Group's regulatory authorities

- undertaking, where appropriate, any special tasks, investigations or projects as requested by the Hiscox Ltd Audit Committee
- arranging for the carrying out of an external assessment at least once every three years by a qualified external independent reviewer
- the carrying out of suitably independent and proportionate quality assurance reviews
- in relation to Internal Audit's work.

The duties of the Hiscox Ltd Audit Committee are set out in the 'Hiscox Ltd Audit Committee terms of reference' document [3].

Availability of the Internal audit policy

In line with CIIA guidance, this internal audit policy is available on the Hiscox Corporate internet site.

References

The following documents are referred to in this policy:

Reference	Document reference	Document title
[2]	00569	Glossary of terms
[3]	00230	Hiscox Ltd Audit Committee terms of reference