

**Direct Line Insurance Group plc**

# **Group Audit**

## **Our Charter**

**April 2019**

## **Role of Group Audit (“GA”)**

We help and support the Board of Directors (“the Board”) and Executive Management (“the Executive”) in their aim to: (i) protect the assets, reputation and sustainability of Direct Line Group (“DLG”); (ii) achieve their strategic and operational objectives; and (iii) discharge their corporate governance responsibilities. We achieve this by:

- Providing assurance that the risk management processes and controls established by management are adequate, effective and sustainable to manage key business risks, including reviewing any ‘lessons learned’ analysis if a significant event has occurred;
- Assessing whether all significant risks are identified by management and the Risk function and reported to the Board and the Executive;
- Challenging the Executive to improve governance, risk management and control activities, including challenging the definition and monitoring of risk appetite performed by the Risk function;
- Challenging processes and controls that support strategic and operational decision making and assessing the appropriateness and reliability of management information presented to the Board and the Executive;
- Providing a Group-wide view of specific risk and control themes emerging from GA work, including considering current and emerging factors and how business processes support a customer focus and compliance with conduct requirements;
- In conjunction with the Risk function, offering an assessment of management’s risk behaviours and attitudes;
- When considered appropriate or on request - providing assurance over key corporate events, such as new products and services, outsourcing, acquisitions or divestments; and
- Being available to the Board, as required, to provide an independent investigations service, for example in those circumstances where it would be inappropriate for the Risk function to undertake an investigation.

We present a quarterly report to the Audit Committee (“AC”) summarising the results and analysis of audit activity in the preceding quarter. On an annual basis, we also present a report which provides (i) an independent opinion on the Group’s self assessment of the Group-wide control environment; (ii) an analysis of key themes and trends identified from audit work performed in the period; (iii) an assessment of the enterprise risk management framework; and (iv) an assessment of management’s risk behaviours and attitudes. We are not part of the system of risk control or compliance. We do not:

- Take accountability for the risk management framework and processes;
- Represent the Executive’s assurance on risks; or
- Take decisions on risk mitigation or implement risk mitigation actions on behalf of the Executive.

## **Purpose of GA**

We provide trusted independent assurance which delivers timely risk and control insight to support the Group in meeting its key objectives.

## **Reporting Lines**

To both preserve and reinforce our independence and objectivity, the primary reporting line for the Group Head of Audit is to the Chair of the AC who is an independent non-executive director. The AC is responsible for the appointment and removal of the Group Head of Audit. The Chair of the AC sets objectives for the Group Head of Audit and recommends remuneration for the Group Head of Audit to the Remuneration Committee. The Group Head of Audit communicates and interacts directly with the AC and with members of the AC in between AC meetings or where escalation is required.

The Group Head of Audit also maintains a reporting line to: (i) the DLG Chief Executive Officer, to report on the outcome of audit activity and assessments on the DLG control environment; and (ii) to the DLG Chief Financial Officer, for day-to-day administrative purposes, although these administrative purposes do not include any matters that could influence GA in delivering its mandate.

It is imperative that our independence and objectivity are maintained through being exempt from undertaking any executive or operational duties, or any other activity, that may impair our judgment. We remain free from interference by any element in DLG, including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of independence and objectivity. The Group Head of Audit confirms to the AC, at least annually, the organisational independence of GA.

### **Rights and Authorities**

Our scope is unrestricted and covers all activities undertaken by, and on behalf of, DLG and its subsidiary companies. We have the right of access to:

- DLG Non Executive Directors and the Executive, including those of all subsidiary companies;
- The AC, Board Risk Committee, Executive Committee, and any other relevant committee, either through attendance or receipt of papers and minutes in relation to meetings; and
- All operations of DLG and any subsidiary companies, third parties and joint ventures, including all information, people and properties.

We also have the right to be informed promptly of a major potential or actual risk management or control failure and any major acquisition, re-organisation or disposal that may have a material impact on the risk management and control environment.

### **GA Resources, Standards and Assurance**

DLG commits to ensuring that GA is adequately staffed and skilled to fulfil our prescribed roles and responsibilities. We provide the AC with a regular assessment of the skills required to deliver the Audit Plan, as well as an assessment of the adequacy of the GA budget to enable us to recruit and retain the appropriate number and calibre of staff, and to ensure specialist skills and expertise are available. We are committed to recruiting highly talented individuals whether that is from within DLG or from the external market. All staff are given training and maintain continuous professional development plans to ensure skill levels remain of the required standard.

We operate in compliance with the DLG Code of Conduct and Values, the Institute of Internal Audit ("the Institute") International Standards for the Professional Practice of Internal Auditing, the Institute Code of Ethics, and the recommendations from the "Committee on Internal Audit Guidance for Financial Services" published in July 2013 and updated in September 2017. We undertake independent internal quality assurance reviews to confirm our compliance.

We report at least annually to the AC on the results of quality assurance reviews and any improvement actions. The AC formally reviews the effectiveness of GA on at least an annual basis and determines the nature and basis of that review. We are subject to an external independent quality review at least every five years, the results of which are reported to the AC. The Chair of the AC oversees and approves the appointment process for the independent assessor.

### **Interaction with Other Assurance Providers and External Parties**

We work with other assurance providers within DLG, across all lines of defence, to facilitate clarity of roles, the sharing of information and to minimise duplication of effort. We also work

closely with the external auditors to ensure effective communication, to minimise any duplication of effort and to ensure that there is adequate audit coverage given to all significant risk activities. The Group Head of Audit, or nominated deputy, liaises with the Financial Conduct Authority ("FCA"), the Prudential Regulation Authority ("PRA"), and other relevant regulators on matters concerning risk management and control, the Audit Plan, and any other material concerns identified either through audit activity or as a result of any points raised by any DLG regulator.