

Unum UK Group

2020 Audit Charter

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## UNUM UK GROUP - INTERNAL AUDIT CHARTER

### 1. PURPOSE AND OBJECTIVE

- 1.1 Unum EEA Group and UnumProvident Finance Company Limited (collectively 'Unum UK Group') has an independent Internal Audit function that reports to the Unum UEHCL and the Unum Limited Audit Committees (both committees of their respective boards).
- 1.2 Internal Audit is responsible for providing the Audit Committee of the Board of Directors and management with independent, objective controls assurance and consulting advice designed to add value and improve the operations of Unum UK Group. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to the evaluation of key controls, risk management procedures, governance processes and any risk and control cultural behaviours.
- 1.3 The UK Head of Audit is responsible for the effective, independent review of all aspects of risk management and control throughout the various companies' activities.
- 1.4 The function will operate in accordance with the Definition of Internal Auditing, the Code of Ethics, the UK Financial Services Code for Internal Audit and the International Professional Practices Framework, as published by the Institute of Internal Auditors and updated from time to time.
- 1.5 The positioning of Internal Audit, including the expectations of key stakeholders is detailed in section 2.

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## 2. POSITIONING OF INTERNAL AUDIT

- 2.1 The positioning of Internal Audit is an important factor in supporting and assessing the standing and credibility of the function. It reflects the operating model of the department and the relationships that are developed within the business. A focus on the value provided by Internal Audit is a key operational driver.
- 2.2 A key consideration of the positioning of Internal Audit is the expectations of key stakeholders. For Internal Audit these include:
- The Unum UK Executives, who require independent assurance on the design and effectiveness of the key controls within the business, but also commentary on the efficient operation of the key processes and controls at both an operational and strategic level
  - The Audit Committee, who similarly require independent assurance on the design and effectiveness of both financial and operating controls, the satisfactory completion of the Audit Plan, and the quality of the resources available to complete the audit work
  - The Regulators and other external authorities, who require assurance from Internal Audit that management has established effective controls that support a strong control environment and risk culture, and to provide assurance on the company's compliance with relevant regulations
  - The external auditors, who aim to leverage the audit work completed by Internal Audit as a key support for the external audit opinions provided on the statutory accounts and regulatory returns
  - The US parent, who rely on the controls assurance work performed by the UK Internal function in a Group context
- 2.3 The positioning statements are provided in sections 2.4 and 2.5 below and reflect discussions with the UK Executive team and the UK non-Executive Directors. The two primary positioning statements are complemented by ten supporting statements. To provide further clarity, a summary of Internal Audit work that is regarded as in scope and out of scope, including its specific Solvency II requirements, is provided in sections 2.6 and 2.7.

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## 2. POSITIONING OF INTERNAL AUDIT (cont)

### 2.4 Primary statements

1. Controls assurance is the principal objective. Internal Audit will provide insightful, timely and robust opinions on key business processes and internal controls, including the key controls supporting the operation of Unum's Internal Model and the related Solvency II requirements. Internal Audit's output will include an assessment of the root cause of any control failures in order to agree practical actions for controls improvement.
2. Internal Audit will provide consulting work and controls advice to the business as part of its business as usual operations, and as requested by management from time to time. The respective responsibilities of Risk and Compliance in this respect will be considered for all consulting work undertaken. Consulting work will not be undertaken that would compromise the independence of Internal Audit.

### 2.5 Supporting statements

Internal Audit will:

1. Engage with and provide controls advice to key operational and strategic developments as early as possible.
2. Maintain flexibility in the resourcing of the Annual Plan in order to support ad hoc consulting, investigatory or controls advice work and to provide a timely response to the changing risk profile of the company and its control environment.
3. Assess its resource and capabilities on an ongoing basis and use co-sourced arrangements and global audit resources to complement its own subject matter expertise and skillset.
4. In its role as the 3<sup>rd</sup> line of defence in Unum's three lines of defence model, liaise with other second line functions, primarily Risk and Compliance, to provide an integrated controls assurance capability and avoid duplication of work.
5. Liaise with the external auditors to agree the work required to support their assessment of key financial controls.
6. Maintain and preserve its actual and perceived independence and objectivity in carrying out its responsibilities.
7. Keep pace with developments in technology in comparison with its peers and the wider financial services industry.
8. Provide controls assurance and regular status reports to the Audit Committee and other key stakeholders on the development and maintenance of Unum UK's risk and controls culture, with reference to the company's supporting risk appetite statements. In this respect Internal Audit will assess whether the root cause of any audit findings are triggered by any cultural behaviours, influences or issues.
9. Reinforce the customer ethos in terms of language and scope of each audit to ensure that the customer experience is highlighted.
10. Pursue its aim of being a more visible and impactful talent hub for future company leaders.
11. Obtain regular feedback from key stakeholders on its performance and compliance with the Audit Charter.

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## 2. POSITIONING OF INTERNAL AUDIT (cont)

### 2.6 In scope work

- As detailed in section 5.4 of the Audit Charter, Internal Audit will review, appraise and report the adequacy and effectiveness of the systems of financial, operational and management control and their operation in practice in relation to the business risks to be addressed (including but not limited to operational, conduct, reputational, culture, capital and liquidity risks). This will include an assessment of the manner in which the first and second lines of defence operate.
- Under Solvency II, a number of existing principles of the role of Internal Audit are reinforced in a financial context. Internal Audit will assess, on an ongoing basis, the components of the Solvency II system of governance, the application of risk related policies, the limits and thresholds set, the review of use tests and validation of the model, as well as the reliability of the data that feeds regulatory reporting and the ORSA. Internal Audit will also include Solvency II compliance aspects in each audit assignment, where relevant.

### 2.7 Out of scope work

- The responsibility for establishing an effective and appropriate system of risk management and internal control lies with the management and Board of the company. As a result, Internal Audit will not engage in any first line activity, including the development or approval of management, operational or financial processes and company projects. This maintains the independence and integrity of the function.
- In a Solvency II context, Internal Audit will not participate in the design or validation processes of the Internal Model, nor the ORSA process. Internal Audit will not prepare, approve, evidence or document the ORSA outcome, nor re-perform the calculation of solvency margins or make quantitative assessments of the risks of the company. The design, implementation, testing and validation of internal models, as stated in article 44 of the Solvency II Directive, are tasks of the Risk function supported by first line management.

## 3. AUTHORITY

- 3.1 Internal Audit shall have unrestricted access to all records, property and personnel (including contractors and others acting on behalf of the Unum UK Group). There shall be no impediment to Internal Audit's ability to challenge executive management and to report its concerns.
- 3.2 All staff and management within the Unum UK Group are required to provide the necessary assistance to, and co-operate with, the staff of Internal Audit in the performance of their duties.
- 3.3 The Head of Audit has the right to attend and is provided with a standing invitation to UK Executive meetings.

## 4. INDEPENDENCE

- 4.1 Internal Audit shall remain independent of the activities which it audits, to ensure the unbiased judgement essential to its proper conduct and impartial advice to management. As a result, Internal Audit has a responsibility to conduct itself such that its integrity, objectivity, confidentiality and competency are not open to question.

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## 5. ROLE AND SCOPE

- 5.1 The responsibility for establishing an effective and appropriate system of risk management and internal control lies with the management and Board of the company.
- 5.2 The role of Internal Audit is to understand the key risks of the company and to examine and evaluate the adequacy and effectiveness of the system of risk management and internal control as operated by the company. This includes the approach taken by the 1<sup>st</sup> and 2<sup>nd</sup> lines in identifying and assessing key company risks and cultural behaviours. In so doing, Internal Audit shall provide recommendations, advice and guidance to facilitate management in discharging its responsibilities.
- 5.3 Internal Audit shall be unrestricted in setting its scope and, through the creation and maintenance of its audit universe, shall independently determine the key risks that face the organization, including emerging and systemic risks, and how effectively these risks are being managed. Internal Audit shall refer to 1<sup>st</sup> and 2<sup>nd</sup> line documentation and output in performing this independent risk assessment.
- 5.4 Co-sourced subject matter expertise will be used to support the risk assessments made and to review the effectiveness of the supporting controls, as noted in section 2.5.3.
- 5.5 Internal Audit shall review, appraise and report on:
  - the adequacy and effectiveness of the systems of financial, operational and management control and their operation in practice in relation to the business risks to be addressed (including but not limited to operational, conduct, reputational, culture, capital and liquidity risks). This might include the assessment of the control environment of other internal assurance providers eg Compliance, Risk
  - the extent of compliance with, relevance of, and financial effect of, policies, standards, plans and procedures established by the Board, including those policies related to Solvency II, and the degree of compliance with external laws and regulations, in liaison with the Compliance department to the point that the regulation in question emanates from the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), including the reporting requirements of regulatory bodies;
  - the results of the Sarbanes Oxley assurance programme;
  - the extent to which the assets and interests are acquired economically, used efficiently, accounted for, and safeguarded from losses of all kinds arising from waste, extravagance, inefficient administration, poor value for money, fraud or other cause, and that adequate business continuity plans exist;
  - the suitability, accuracy, reliability, timeliness and integrity of financial and other management information, and the means used to identify measure classify and report such information;
  - the integrity of processes and systems to ensure that controls offer adequate protection against error, fraud and loss of all kinds, and that the process aligns with the company's strategic goals;

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- the suitability of the organisation of the units audited for carrying out their functions, and to ensure that services are provided in a way which is economical, efficient and effective;
- the suitability, accuracy, reliability, timeliness and integrity of financial and other management information, and the means used to identify measure classify and report such information;
- the integrity of processes and systems to ensure that controls offer adequate protection against error, fraud and loss of all kinds, and that the process aligns with the company's strategic goals;
- the suitability of the organisation of the units audited for carrying out their functions, and to ensure that services are provided in a way which is economical, efficient and effective;
- the follow-up actions taken to remedy weaknesses identified by Internal Audit review, ensuring that good practice is identified and communicated widely;
- the operation of the company's corporate governance arrangements;
- any specific assurance performed in line with the requirements of outside parties (e.g. external auditors, PRA, FCA or other regulators).

5.6 As appropriate, and where not in conflict with its wider role or independence, Internal Audit may also carry out special reviews and investigations requested by management.

5.7 Where any potential conflict has been identified with work currently carried out, or carried out within the preceding year by the UK Head of Audit or the Audit Function, the UK Audit Committee can commission independent assurance as appropriate to obtain any further assurance or validation that it requires. The UK Head of Audit will specifically report any potential areas of conflict to the Audit Committee, at the meeting following the conflict arising and also at the point that the committee reviews and approves the plans for audit department.

## 6. REPORTING ON WORK CONDUCTED

6.1 The UK Head of Audit is accountable to the UK Audit Committee for:

- reporting on all audit and review activity performed, the results of work conducted, and management's responses to findings (including whether agreed actions were subsequently implemented);
- providing regular assessments of the adequacy and effectiveness of the company's systems of risk management and internal control, including any cultural behaviours and influences;
- reporting significant control issues and potential for improving risk management and control processes;
- providing information periodically on the status of: individual audit projects; the annual audit plan; and the sufficiency of Internal Audit resources.

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## 7. RESPONSIBILITY & ACCOUNTABILITY

7.1 The UK Head of Audit is responsible for:

- developing an annual audit plan based on an understanding of the significant risks to which the company is exposed;
- submitting the plan to the UK Audit Committee for review and agreement;
- implementing the agreed audit plan;
- flexing the plan where required for unplanned events and emerging risks, providing appropriate justification;
- submitting the amended plan to the UK Audit Committee for review and agreement;
- reporting to the UK Audit Committee on the results of the Sarbanes Oxley assurance work;
- maintaining appropriate staffing through the use of professional audit staff either locally or through use of global teaming with sufficient knowledge, skills and experience to carry out the plan, supplemented as and where required with appropriately qualified contract or co-sourced staff;
- assessing the independence of any co-sourcing firm used to conduct any assurance or consulting work;
- obtaining prior approval from the Audit Committee for any new co-sourcing arrangements being considered;
- establishing and implementing appropriate methods and standards for the conduct of internal audit;
- maintaining an internal quality assurance and improvement programme that covers all aspects of internal audit activities;
- liaising with the external auditors in connection with Internal Audit matters.

## 8. REPORTING AND COMMUNICATION LINES

8.1 The UK Head of Audit has unrestricted, and if required private access to:

- the Chair of the Audit Committee;
- the Chief Executive Officer;
- the Unum Group Chief Auditor;
- the external auditors and regulators; and
- reports provided to the Group Chief Auditor for day to day management matters.



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## 9. MONITORING

- 9.1 The performance of the Internal Audit function is monitored and assessed by the UK Audit Committee on an ongoing basis, taking into account the opinions of company management and the external auditors.
- 9.2 On a periodic basis, and in accordance with internal auditing standards, the function will be independently assessed in terms of effectiveness and performance at least once every five years. The assessment will include an evaluation of the function's compliance with the agreed audit methodology and internal auditing standards, the efficiency and effectiveness of the function, stakeholder management processes, and opportunities for improvement.
- 9.3 The Head of Audit will communicate regularly to senior management and the Audit Committee on Internal Audit's quality assurance and improvement program, including the results of the internal and external assessments.

## 10.

Version	Produced by	Date	Comment
17.0	David Rankin, Head of Audit, Unum UK	June 2017	Annual Review by Audit Committee
18.0	David Rankin, Head of Audit, Unum UK	May 2018	Annual Review by Audit Committee
19.0	David Rankin, Head of Audit, Unum UK	May 2019	Annual Review by Audit Committee
20.0	David Rankin, Head of Audit, Unum UK	May 2020	Annual Review by Audit Committee

### Approved by:

<b>Name</b>	Unum UK Group Audit Committee
<b>Date</b>	11 May 2020