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### CIIA Code for Effective Internal Audit in Financial Services - consultation questionnaire

The Lloyd's Market Association (LMA) represents the 59 managing agents at Lloyd's, which manage the 84 syndicates underwriting in the market, and also the 3 members' agents which act for third party capital. Managing agents are "dual regulated" firms by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) and members' agents are regulated by the FCA. For 2016, premium capacity is in excess of £27 billion.

We appreciate the opportunity to respond to this consultation questionnaire, which has been prepared by a sub-group from the LMA Internal Auditors Committee (IAC). Our responses to the questions as set out in your paper are as follows;

#### Questions

1. How well do you feel the 2013 Code achieves its stated aims – please tick one.
  - Completely achieves aims
  - Achieves most aims
  - Partially achieves aims - **Partial**
  - Not at all
2. Has the Code been formally adopted by your organisation? If not, why not?

The Code has not been formally adopted; however, the Internal Audit Functions within the Lloyd's market have taken steps, such as performing a gap analysis, to demonstrate conformity, in a proportionate manner, to the Code with feedback provided from their Audit Committees.

3. Which aspects/recommendations have made the greatest impact? Please explain

The Code has had its greatest impact on the following areas:

- Culture, risk strategy and risk awareness ;
- Quality Assurance;
- Access / attendance on additional governing bodies; and
- Reporting lines for the Head of Internal Audit.

Due to the perceived position of the Code i.e. formal expectation by the regulator of its

adoption as a sign of good practice, it has raised the profile of the Internal Audit Function and expanded both its remit and its areas of focus.

4. Which recommendations in the Code require enhancement? Please explain

The following recommendations require enhancement:

- Additional guidance needs to be provided to address the specific areas where Internal Audit's role / involvement was expected to change as a result of the Code i.e. Quality Assurance, Culture and Corporate Events. The Code needs to explicitly state that a proportionate approach needs to be adopted in these areas for smaller businesses / Internal Audit Functions; and
- There is a need to set out the expectations of the Non-Executive Directors, especially the Chair of the Audit Committee, in the adoption / oversight of the Code.

5. Are there any significant areas that the Code did not address? Please explain

It did not set out the regulator's expectations on Internal Audit in the implementation, in a proportionate manner, of the Code.

6. Are there any provisions of the Code whose wording or underlying direction have created/are liable to create unintended consequences? Please explain

- There have been non proportionate responses to the Code due to the lack of guidance i.e. expectations of quality assurance; and
- There were instances where audits were brought into the universe purely to satisfy the requirements of the Code when ordinarily they would not have been considered.

7. Which areas have been most challenging to implement? Please explain

The requirement relating to Quality Assurance has been the most challenging to implement due to either the cost i.e. creation of a separate unit / appointment of a third party, or determining what was appropriate for smaller Internal Audit Functions.

8. How has the Code been used, internally and externally, including in interactions with the regulators? Please explain.

The Code has been used in the following ways:

Internally – following the introduction of the Code, a gap analysis has been performed by the Internal Audit Functions to determine what enhancements, if any, were required. The analysis was reviewed and approved by the relevant Audit Committees.

Externally – the Code has been used at differing levels depending on the regulatory supervisor, ranging from no expectations to full compliance with the Code.

9. What use is being made of the Code in the context of external quality assessments? Please explain

In the majority of cases, the Code was not explicitly mentioned in the external review unless specifically requested by the party commissioning it.

10. Has the internal audit function in your organisation been the subject of an independent external assessment against the provisions of the Code?

Where an independent external assessment has been performed, the provisions of the Code was not generally referred to unless it was explicitly requested.

The external assessment was primarily against the IIA's global standards and in some instances included the Lloyd's Minimum Standards that simply states that there should be an awareness of the Code.

11. Have regulators' expectations of internal auditors changed since the Code was introduced? If so, how?

No.

12. Does the Code encourage sufficient focus on internal audit's role in supporting a healthy corporate culture in organisations? Please comment

Yes.

13. Does the Code need to be updated to reflect structural reforms to the financial services sector and/or the introduction of the Senior Managers Regime? If so, how?

It could be updated to state the expectations of the regulator on the Internal Audit Function in the adoption of the Code and could form part of the regime for (Audit) Senior Managers and Non Executives.

14. What action(s), if any, need to be taken to promote compliance with the Code and to drive improvement of standards more broadly? And by whom? Please explain

To promote compliance, the Code should:

- Be sponsored by the Chair of the Audit Committee and the CEO, or equivalent;
- Explicitly state that there is an expectation to comply with it or if certain aspects cannot be achieved then these should be explained with sign off of the approach by the Audit Committee;
- Be formally included as part of any external assessment review – potentially by Internal Audit but would need sponsorship of Chair of Audit Committee and the CEO; and
- Highlight those areas of the Code that are considered to be the most significant (reporting lines, independence) versus those that might be more guidance or optional.

Please provide your name and e-mail address if you would be prepared to be interviewed further about your response, and/or would be interested in participating in possible consultative events.

[Gary.Budinger@lmalloyds.com](mailto:Gary.Budinger@lmalloyds.com) (main contact on behalf of IAC members)

Should you have any questions in relation to this response, please do not hesitate to contact [Gary.Budinger@LMALloyds.com](mailto:Gary.Budinger@LMALloyds.com)

Yours sincerely

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IAC Chairman