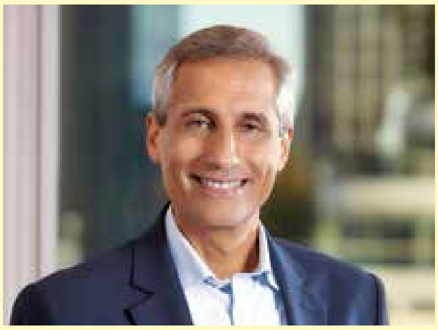
Audit Committee report



Committee overview

Committee meetings and membership

The Committee met six times during the year. The Committee comprises only independent non-executive directors and fulfils the experience and expertise criteria required by the UK Corporate Governance Code and the FCA's Disclosure and Transparency Rules.

Meeting attendance

Member	Scheduled	Ad hoc
Tushar Morzaria (Chair)	5/5	1/1
Philip Broadley	5/5	1/1
Carolyn Johnson	5/5	1/1
Nilufer Kheraj OBE	5/5	1/1
George Lewis	5/5	1/1

The role of the Committee

The Committee monitors the integrity of the Group's financial reporting (including climate and other ESG-related disclosures) and provides oversight of the control environment. In addition, the Committee monitors the adequacy and effectiveness of the Group's system of risk management and internal control as well as the Group's internal and external audit processes.

Key responsibilities

- Consider the integrity of the Group's financial and non-financial reporting, formal announcements and regulatory information in relation to the Group's financial performance.
- Assess the going concern assumption and the longer-term viability statement.
- Advise the Board on whether the Annual report and accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.
- Review the Group's accounting policies, including any proposed changes, and review the appropriateness of significant accounting policies and judgements.
- Review and make a recommendation to the Board on the adequacy and effectiveness of the Group's system of internal control over financial reporting.
- Oversee the appointment, reappointment, remuneration, independence and effectiveness of the external auditor.
- Oversee the work of Group Internal Audit (GIA) including the independence and effectiveness of the function.
- Oversee the audit committees of the Company's principal operating subsidiaries.

Committee's terms of reference
The Committee's terms of reference can be viewed on our website:

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group.legalandgeneral.com/groupboardcommittees

I am pleased to present my report as Chair of the Audit Committee for the year ended 31 December 2024. The Committee has continued to assist the Board in fulfilling its core responsibilities this year, including monitoring the integrity of the Group's financial reporting, the adequacy and effectiveness of the internal control environment and the performance and objectivity of both the internal and external audit functions.

During a year of change for the Company, the Committee has continued to oversee, scrutinise and challenge key issues and management judgements as part of its monitoring and assessment of the integrity of the Group's financial and non-financial reporting. This was particularly pertinent as we oversaw the accounting implications of the Group's new strategy and subsequent divisional restructure, as well as a number of material transactions that occurred during and after the year end. The Committee has also focused on the internal control environment and receives regular updates from management on the effectiveness of the controls in place for financial reporting, while also examining the progress of remediation for any deficiencies identified throughout the year. In particular, following the implementation of IFRS 17 and IFRS 9 in 2023, the Committee has continued to oversee the embedding of these complex new accounting standards into financial reporting processes and controls, and has been pleased to see the speed and quality of progress made in this regard. The Committee has also received regular updates on the changing legislative and regulatory environment and the implications of this in respect of reporting, including the new requirements of the 2024 UK Corporate Governance Code.

Committee membership and skills

The Board considers that the Committee, as a whole, has a balance of skills and experience to deliver its responsibilities and has competence relevant to the sector and broader financial services industry. In addition, the Board considers that I, as Chair of the Committee, have recent and relevant financial experience and am competent in accounting and auditing.

All members of the Committee are also members of the Risk Committee, which ensures that there is appropriate identification and management of any issues that are relevant to both committees. The full biographies of all Committee members can be found on pages 58 and 59. Between meetings, I meet regularly with senior management across the Group's Finance, Tax and Internal Audit functions, as well as with the lead external audit partner.

Financial and non-financial disclosures

The Committee reviewed the half year and annual financial statements, which focused on the integrity, accuracy and clarity of disclosure, application of accounting policies and judgements and compliance with legal and relevant reporting standards. As part of its review, the Committee received regular updates from management and the external auditor and was able to place reliance on the updates provided by management throughout the year on internal controls in relation to financial and non-financial reporting. For more information relating to the application of accounting policies, please refer to Note 1 of the financial statements.

As part of its review of financial disclosures, the Committee also considered whether the annual report was fair, balanced and understandable (FBU) and whether it provided the information necessary for shareholders to assess the Company's position, performance, business model and strategy, as well as the risks facing the business including in relation to increasingly important ESG and climate considerations. The Committee reviewed the FBU assessment taking into consideration the impact of market volatility and the changing interest rate and inflationary environment and giving due attention to the use of Alternative Performance Measures (APMs) in increasing the level of information available to investors on the Company's underlying performance and the effects of one-off financial events. As a result of the launch of the Group's new strategy in June 2024, a number of new APMs have been introduced, and the Committee has considered the appropriateness of their incorporation into the Group's suite of external reporting documents from an FBU perspective, as well as their alignment with the guidelines of the European Securities and Markets Authority (ESMA) in relation to APMs. In conjunction with verification processes, management assurance and a report from the external auditor, the Committee recommended to the Board that the Annual report and accounts, taken as a whole, is fair, balanced and understandable.

The Audit Committee, together with the Risk Committee, reviewed the key assumptions and methodologies of the risk-based capital model, Solvency II disclosures and disclosures made in relation to internal control and risk management, as well as the principal risks and uncertainties the Group faces. The Committee can confirm that the key judgements and significant issues considered in relation to the 2024 financial statements are consistent with the disclosures of key estimation uncertainties and critical judgements as detailed in Note 1 on page 134. The statement is underpinned by the Committee's belief that all important information has been disclosed and that the descriptions and reviews of the Group's business and performance as set out in the Strategic report are consistent with the financial reporting in the Group's financial statements.

Internal control

The Committee has the primary responsibility for the oversight of the Group's system of internal controls including controls over financial reporting and the work of the Internal Audit function. The Committee, in collaboration with the Risk Committee, seeks to ensure that the Group operates within a framework of prudent and effective controls that allow risks to be identified, assessed and managed. The Committee has received regular updates on the Group's overall control environment throughout the year as well as further in-depth updates focused on the Group's divisions and where areas for improvement in the control environment have been identified.

Policies and manuals in relation to International Financial Reporting Standards (IFRS) and Solvency II reporting requirements and a Financial Control Framework (FCF) are in place across the Group. FCF is a first line framework that supports the Committee in enabling it to understand and assess the design and effectiveness of controls over financial reporting (covering IFRS, APMs, and Solvency II) and climate and other non-financial reporting. FCF is a risk-based approach with management identification, documentation, testing, remediation (as required), reporting and certification over key reporting-related controls.

The Committee, together with the Risk Committee, monitored the effectiveness of the systems of internal control over financial and non-financial reporting that support the integrity of the Group's financial and non-financial disclosures, in accordance with the requirements of the guidance on risk management, internal control and related financial and business reporting published by the FRC. During this review, the Committee did not identify any weaknesses which were determined to be significant to the preparation of the financial statements. Where areas for improvement were identified, processes are in place to ensure that the necessary actions are taken, and progress is monitored by the Committee.

In January 2024, the FRC announced the publication of the 2024 Code. The Committee, together with the Risk Committee, will oversee and make recommendations to the Board in relation to the changes to Provision 29 of the Code, which will come into force from 1 January 2026. The changes bring a greater level of transparency as to how the Board is fulfilling its broader requirements in relation to audit, risk and internal control, and will require the Board to make a specific declaration on the effectiveness of material controls at the balance sheet date. The Committee is overseeing any work that is required to enable the Board to make such a declaration, which will be in the Annual report and accounts for the year ended 31 December 2026.

Audit quality

It remains an important aspect of the Committee's work to keep under review the independence and effectiveness of the internal and external audit process.

Internal audit

The Committee continued to oversee and support the work of the GIA during the year. The Group Chief Internal Auditor presents a report at each scheduled Committee meeting, to update the Committee on the results of audits since the previous meeting. The report includes: GIA's assessment of the overall control environment for each of the Group's divisions; details of any significant audit reports issued; and an update on the status of open and overdue issues to address audit findings and key themes and trends.

Key areas of GIA's work reported to the Committee during the year included: processes and controls supporting financial reporting under IFRS 17; processes and controls supporting solvency capital requirements; management of liquidity and market risk; data, cyber and physical security; technology resilience; third party risk management; implementation and embedding of the FCA's Consumer Duty; processes and controls to prevent and detect financial crime; governance and processes supporting the Group's strategic change programme; and various audits of key operational processes.

GIA continues to evaluate the risk and control culture across the Group and includes specific reporting to the Committee on the results of this work. The Committee approved GIA's risk-based audit plan for the year and monitored the delivery of the plan throughout the year as well as the associated key performance metrics. GIA retained EY as a strategic co-source partner and Deloitte for the provision of independent quality assurance (QA) over a sample of audits completed during the year. The results of the independent QA activity were reported to the Committee.

The Committee continued to meet with the Group Chief Internal Auditor in private throughout the year. In accordance with the Chartered Institute of Internal Auditors' Financial Services Code of Practice, the Committee conducted its annual review of the independence and objectivity of the Group Chief Internal Auditor and concluded that independence and objectivity had been maintained throughout the year. The Committee undertook its annual review of, and approved, the GIA Charter, which includes GIA's mandate and its role in the organisation, which was to help the Board and senior management to protect the assets, reputation and sustainability of the organisation through the provision of independent, risk-based and objective assurance, advice and insight. The Committee also undertook a regular review of key performance indicators, including: audit plan delivery progress; resourcing and skill levels; and progress by GIA in completion of its strategic development actions.

Based on regular internal audit reporting, private sessions with the Group Chief Internal Auditor, and taking into consideration the independent QA activities over GIA's audits, the Committee is satisfied with the effectiveness of the GIA function, the independence of the Group Chief Internal Auditor, its positive impact upon the effectiveness of governance, risk management and controls across the organisation; and the appropriateness of its resources.

External audit

The Committee has the primary responsibility for overseeing the relationship with, and performance of, the external auditor. This includes making recommendations for their appointment, reappointment, removal and approval of remuneration. The Committee reviews and approves the terms of engagement of the external auditor and monitors its compliance with the independence criteria in the UK Corporate Governance Code.

The Committee meets regularly and privately with the external auditor. These meetings allow for regular and open dialogue of any issues relevant to the Committee's work. Audit Committee members also meet regularly with management outside of formal Committee meetings to discuss the relationship with the external auditor and the efficiency of the audit process. Throughout the year, the Committee has received updates on the quality of the external audit process and has continued to work with, and challenge, management and KPMG on efficiency gains and ensuring that audit fees are fair and proportionate to the audit work required for the Group.

Appointment

The Company confirms that it has complied with requirements governing the appointment of an external auditor, notably the requirements of the Competition & Markets Authority contained in the Statutory Audit Services for Large Companies Market Investigation (Mandatory Uses of Competitive Tender Process and Audit Committee Responsibilities) Order 2014, including requirements for mandatory audit firm rotation. Following a competitive tender carried out in 2016, KPMG was appointed as the Group's external auditor with effect from the financial year ended 31 December 2018. In May 2024, KPMG was reappointed as the Group's external auditor for the financial year ended 31 December 2024, which is their seventh year as the Group's external auditor.

The Committee considers the quality and effectiveness of the external audit and recommends to the Board, on an annual basis, whether to recommend the reappointment of the external auditor for shareholder approval. On the basis that KPMG continue to maintain their independence and objectivity, and the Committee continues to remain satisfied with their performance, there are no plans as at the date of this report to conduct a tender exercise for external audit services in relation to reporting periods before the end of the current required period of 10 years. The Committee believes it would not be appropriate to tender before the end of this period as it recognises that, while it is important to ensure the audit firm remains objective and does not become overly familiar with management, there is an important balance to be struck with the investment of time required both from management and any completely new audit team for them to gain sufficient understanding of a large and complex organisation, such as L&G, to ensure a high quality audit.

Assessment of independence and effectiveness

The Committee is responsible for assessing the effectiveness, objectivity and independence of the external auditor. This assessment is ongoing throughout the year and concludes with a formal, internal, effectiveness review, which was conducted in December 2024. The 2024 audit effectiveness review was undertaken to assist the Committee in assessing the quality of external auditor services provided to the Group through completion of a questionnaire by the Committee, senior management, and members of the Group's finance teams. As part of the ongoing assessment and effectiveness review, the Committee assesses the external auditor against a number of criteria, including but not limited to: delivery of an efficient and effective audit; the quality of judgements and audit findings; the ability to meet objectives within agreed time frames; provision of timely and accurate industry-specific and technical knowledge; and maintaining a professional and open dialogue with the Audit Committee Chair and members at all times. The Committee holds regular private meetings with the external auditor to discuss the audit process and relationship with management.

The Committee and management have a regular and open dialogue with KPMG and the audit partner regularly attends Committee meetings. The Committee also receives reports from the external auditor on the progress of its audit activities and updates on its risk assessment. The Committee reviews the content of these reports and the level of professional scepticism and challenge of management assumptions demonstrated by the external auditor and, where appropriate, requests that management respond to that challenge and tracks management responses to ensure a satisfactory outcome to the challenges raised.

The Committee was provided with the findings of the FRC's Audit Quality Review (AQR) inspection of KPMG and other large firms which largely covered the years ending between June 2022 and May 2023, and discussed these with KPMG. No specific actions were required as a result of the AQR. The AQR provided further external evidence to the Committee of the robustness and quality of the external audit process.

Overall, the assessment of KPMG remains positive and, where opportunities for improvement have been identified through the effectiveness review, KPMG were asked to consider that feedback in future audit cycles. Taking into account the result of the formal evaluation and the ongoing assessment throughout the year, the Committee concluded that KPMG maintained its independence and objectivity and that the audit process was effective. Upon the Committee's recommendation, the Board has recommended that KPMG be reappointed as the Company's auditor, by shareholders, at the 2025 AGM.

Non-audit services

In order to safeguard the auditor's independence and objectivity, the Group has in place a policy setting out the circumstances in which the external auditor may be engaged to provide services other than those covered by the audit. The policy applies to all L&G subsidiaries and other material entities over which the Group has significant influence. The core principle of the policy is that non-audit services (other than those legally required to be carried out by the Group's auditor) should be performed by the auditor only in certain controlled circumstances. The policy sets out those types of services that are permitted (permitted services) and those types of services which are not permitted. The policy pre-approves a number of the permitted services, provided the fee is below a certain threshold; all other permitted services must be specifically approved in advance by the Committee.

The policy is reviewed on an annual basis to ensure that it is fit for purpose and that it reflects applicable rules and guidelines. The policy is aligned with the FRC's requirements and includes the requirement to consider the self-review test under the International Ethics Standards Board for Accountants (IESBA) Code of Ethics, applicable for periods beginning on or after 15 December 2022, before a proposed engagement is assigned. It is also aligned with KPMG's own internal policy on non-audit services for FTSE 350 companies, which broadly restricts non-audit work to services that are 'closely related' to the audit. Any changes to the policy are required to be approved by the Committee. This is in accordance with laws applicable in the UK and FRC guidance, pursuant to which audit committees of Public Interest Entities are required to approve non-audit services provided by their auditors to such entities; and subsidiary Public Interest Entities in the UK – such as Legal and General Assurance Society Limited (LGAS) – can rely on the approval of non-audit services by the ultimate parent board's Audit Committee.

Audit fees

The Committee assesses the external auditor's fee structure, resources and terms of engagement annually. Total fees paid to the auditor for the year were £19.8 million (2023: £23.1 million), of which £2.3 million (2023: £1.9 million), was spent on other audit-related and non-audit other assurance services. £1.8 million (2023: £1.6 million) was spent on audit-related services required by legislation, which is excluded from any calculation of the ratio of non-audit to audit fees in accordance with the UK FRC Revised Ethical Standard for Auditors (2019). Further details can be found in Note 31 to the consolidated financial statements. The non-audit fee represents 6% of the total audit fee for 2024. The Committee continues to work with KPMG to ensure costs remain appropriate and proportionate to the services provided.

	2024 £m	**2023 £m**	**2022 £m**
Audit	15.7	19.6	14.2
Audit-related required by legislation	1.8	1.6	1.6
Other audit-related	1.2	1.0	0.9
Non-audit other assurance	1.1	0.9	0.8
Total	19.8	23.1	17.5

Tushar Morzaria
Chair of the Audit Committee

Key accounting and reporting judgements

Throughout the year, the Committee was briefed at each meeting on the Group's key accounting and reporting judgements by management and KPMG. The Committee's response to each issue can be found below, and the Committee is satisfied that the financial statements appropriately address the key accounting judgements and estimates in respect of both the amounts reported and disclosures made.

Issue	Committee's response
Valuation of insurance contract liabilities – retirement: The insurance liabilities for retirement products are significant in size and their estimation is inherently judgemental.	The Committee evaluated the significant judgements that have an impact on the valuation of insurance liabilities for retirement products. This included considering: Longevity assumptions – which estimate how long policyholders receiving annuity payments will live. The challenge around the setting of longevity assumptions was a particularly significant area for review as the judgements made could be expected to have a material impact on the Group's results. The Committee considered the effectiveness of the controls over the accuracy and completeness of the data used in determining the longevity assumption and the validity of independent industry data supporting those assumptions. The Committee also reviewed available data illustrating recent trends in mortality experience in the UK population and the mortality experience on different blocks of our business, taking account of the uncertainty in more recent data as a result of Covid-19. Valuation interest rates – which are used to discount the liabilities. These are sensitive to judgements made, for example, on credit default of the backing assets, as well as the investment data used to calculate the internal rate of return. The Committee focused on management's proposed changes to reserving assumptions, other modelling changes, and the determination of the credit default assumption. This included analysis of internal historical data and external market experience. Directly attributable expense assumptions – which determine the specific future expenses that are incorporated in the calculation of the IFRS insurance liabilities. The Committee considered the allocation between servicing new and existing business and the consistency of approach applied. The Committee concluded that the retirement insurance contract liabilities are appropriate for including in the financial statements, reflecting the asset risks and the available data on policyholder longevity.
Valuation of complex investments: Mark to model investments can involve significant judgement and can produce valuation challenges for investments in new classes. Mark to model valuations inherently include assumptions that lead to the existence of a range of plausible valuations for financial instruments (known as valuation uncertainty). Certain assets are subject to a higher degree of valuation uncertainty, particularly where valuations are modelled using no market inputs or the valuations are affected by other factors such as the illiquidity of the asset.	The Group balance sheet carries exposure to complex investments (typically classified as Level 3 in the fair value hierarchy), in line with the Group's strategy and risk appetite. The valuation of these investments, including property assets, lifetime mortgages and private credit, requires the use of complex models and management judgement. The Committee seeks to ensure that the valuation process for these investments is robust. These harder to value assets remain a key area of focus, partially heightened in 2024 as a result of macro-economic volatility and geopolitical events. The valuation of a number of asset classes is sensitive to varying interest rates and inflation, and these have therefore been areas of enhanced challenge and review by the Committee. The Committee has continued to review the processes and controls over investment valuations, and in particular the valuation uncertainty policies and governance which include management's assessment of valuation uncertainty by asset type. While we do not currently see any material impact on the valuation of our asset portfolio arising from climate change, this continues to be an area of increased consideration along with other ESG factors in both internal and third-party valuations. The Committee concluded that there are appropriate controls surrounding the valuation of complex assets and that they are valued appropriately for inclusion in the financial statements.
Valuation of insurance liabilities – protection: The insurance liabilities for protection contracts are an important driver of the profitability for this line of business and require judgements to be made regarding the assumed rates of mortality and persistency. The Company makes extensive use of reinsurance to reduce mortality risk.	The Committee has reviewed the methodology for calculating reserves including the allowance made for payments to and from reinsurance counterparties. The assumptions for the rate of future mortality and morbidity (how many customers will die or become ill during the policy term) and persistency (how many customers will discontinue cover) are based on the Company's internal experience and use judgement about how experience may vary in the future. During 2024, the Committee has spent time reviewing the findings and judgements in respect of the continuing elevated levels of mortality experienced in the UK and the US, reflecting indirect impacts of Covid-19 related illness, and potentially reflecting the deferral of diagnostics and medical treatments for other conditions. The Committee reviewed the judgements underlying the directly attributable expenses included in the insurance liabilities and considered the effectiveness of controls in place over valuation models. The Committee concluded that the insurance liabilities of the Group's insurance businesses are appropriate for inclusion in the financial statements.
Alternative performance measures (APMs): APMs offer investors and stakeholders additional information on the Company's performance and the financial effect of 'one-off' events, and the Group uses a range of these metrics to enhance understanding of the Group's performance.	As part of its consideration of whether the Annual report and accounts is fair, balanced and understandable, the Committee has paid particular attention to the use of APMs in reporting the Group's performance. The Committee has reviewed the addition of new APMs following the launch of the Group's new strategy in June 2024, namely Core operating profit, Core operating earnings per share and Operating return on equity. Specifically, the Committee has considered the incorporation of these APMs into the Group's suite of external reporting documents to ensure that they are aligned to both the Group's disclosed policies on these APMs and the underlying principles of fair and consistent reporting. Where appropriate the Committee has reviewed additional disclosures provided to enhance transparency in respect of the Group's APMs. The Committee concluded that the use and disclosure of APMs, including the clarity of labelling the prominence of APMs versus statutory measures, are appropriate for inclusion in the Annual report and accounts.