



London Stock Exchange Group

Internal Audit Charter

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1.0	May 2012	D. Cote	Group Head of Risk and Internal Audit	03 May 2012	March 2013
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Mission

The mission of Internal Audit is to provide reliable objective and reasonable assurance to Management, Executive Committee members, Audit Committee members and Board members of the London Stock Exchange Group ('The Group') on the adequacy and effectiveness of the system of internal controls, the governance model and the risk management framework in place to manage risks within The Group's risk appetite and achieve The Group's business objectives. This mission is fully compatible with the IIA definition of internal audit. Internal Audit's activities provide value and support the strategy of the Group by protecting the business assets, raising the control culture awareness and by providing insights on improvements to governance, risk and control processes

(http://www.iaa.org.uk/en/Knowledge_Centre/global_professional_guidance/Definition.cfm)

Role and Responsibilities

Internal Audit acts as the third line of defence in the Group risk governance "three lines of defence" model. In this model the first line of defence, management, is responsible for managing risks by maintaining an effective system of internal controls. The second line of defence is responsible for developing and maintaining an effective risk and compliance framework to support management in the delivery of its business and strategic objectives. The second line of defence also has responsibility for facilitating the risk management process and agreeing the risk assessment results. As the third line of defence, Internal Audit is accountable for developing and delivering a programme of objective periodic assurance aimed at validating the effective management of key business risks the effectiveness of the risk management framework and the Group's governance arrangements.



The Group Head of Internal Audit is responsible for defining the risk assurance coverage to be provided by Internal Audit based on a risk assessment of the key processes, functions and models that should be in place to manage the key risks of The Group and its operating entities. The Group Head of Internal Audit is also responsible for ensuring that the audit function is well resourced and has access to the relevant skills, knowledge and competencies required to deliver the programme of assurance. This could be achieved through co-sourcing and outsourcing arrangements subject to approval of the Audit Committee.

Internal Audit is responsible for reporting on a timely basis to management, the Executive Committee and the Audit Committee any significant control weaknesses or control breakdowns it has identified that could impact the achievement of The Group's objectives. It is also responsible for performing timely follow-up on the implementation of management action plans and reporting the results to the Executive Committee and to the Audit Committee. Internal Audit, as part of the delivery of its risk assurance programme, can rely on other assurance work that has been performed by the second line of defence or other external assurance providers, as long as it can satisfy itself that the people performing the review are independent from the audited areas and the standards followed are adequate for the level of risk assurance required (in accordance with .IIA Guidance Note <https://na.theiia.org/standards-guidance/Member%20Documents/Final%20OAP%20Practice%20Guide%20Dec%202011.pdf>)

Governance and Independence

The independence of Internal Audit from the operations of the Group is fundamental to its ability to deliver an objective opinion on the effectiveness of the system of internal controls to its key stakeholders.

To reinforce the independence principles, the following governance arrangements are maintained at all times:

- The Audit Committee must approve the appointment or the dismissal of the Group Head of Internal Audit (GHIA)
- The Group Head of Internal Audit reports directly to the Chair of the Audit Committee
The Group CFO will consult with the Chairman of the Audit Committee:
 - to help set the objectives of the Group Head of Internal Audit
 - to appraise his/her performance
 - to propose his/her remuneration to the CEO
- The Audit Committee approves the annual budget and resource plan for internal audit.
- The GHIA has unrestricted access to and can interact directly with the Audit Committee and the Board including in private meetings without management present
- The Audit Committee approves the internal audit's charter which is updated at least once a year



All auditors working in the UK, in Italy or in any other locations report either directly or through a local head of Internal Audit to the Group Head of Internal Audit. For governance purposes, in certain regulated subsidiaries, the entity's Head of Internal Audit in addition to the reporting line to the Group Head of Internal Audit can also report to the Board of directors and the CEO of the entity. Audit activities relating to Group companies under the supervision of local regulators will ensure that they fulfil all regulatory requirements.

As a third line of defence, the function has no operational responsibilities over the entities/processes that it reviews. Internal auditors that have worked in other areas of the Group will be subject to a cool-off period and will not perform or manage reviews in the business areas for which they were previously responsible. The cool-off period should be at least one year after the end of their contract with the business.

For areas where the Group Head of Internal Audit has identified a conflict of interest or a potential impairment of the objectivity of the function, the Group Head of Internal Audit should seek alternative solutions to provide the required level of assurance coverage and could obtain assistance from external parties subject to the approval of the Chair of the Audit Committee. All conflicts of interest must be reported to the Audit Committee. In addition the GHIA will confirm to the Audit Committee at least annually the organisational independence of the Internal Audit function including external parties engaged to perform work on its behalf

Authority

Internal Audit has direct access to the Board and the Audit Committee, and is accountable to the Audit Committee from which it derives its authority. The Chair of the Audit Committee reports regularly to the Board on all aspects relating to the Committee. In addition, Internal Audit will have direct access to the Chief Executive Officer for strategic matters, as and when required. The Group Head of Internal Audit is responsible for managing the Internal Audit function.

With stringent regard for safekeeping and confidentiality, Internal Audit will have full and unrestricted access to all activities, records (in both paper and electronic format), property and personnel necessary to accomplish the stated purpose in so far as such access is relevant to its auditing activities. Internal Audit will also have access to third parties (including external auditors) performing services delegated to them by the Company, access to contracted third parties will be handled in accordance with contractual terms.

With respect to accessing and sharing Internal Audit information, Internal Audit will: share information internally on a "need to know" basis; meet information requests from the company's External Auditors and Regulators; meet requests from third parties involved in programmes / projects subject to legal arrangements being in place for the sharing of information.



Internal Audit is authorised to allocate resources, select business units and processes and the frequency of review, determine audit scope and apply audit tools and techniques and obtain the necessary assistance and specialised services within or outside The Group to achieve its objectives.

The Group Head of Internal Audit (or a designated substitute) has the right to attend all management committees as an invitee, including ExCo and its sub-committees (Financial Risk Committee, Operational Risk Committee, Investment Committee and New Products and Markets Committee) for the full duration of the meetings. Internal Audit should also be informed by management, on a timely basis, of any significant control failures and fraud identified by management or by any other parties.

Scope of Work

The primary scope of Internal Audit is the examination and evaluation of the adequacy and effectiveness of The Group's system of internal controls, the Group's risk management framework and the governance processes as approved by the Audit Committee. This includes all operations, processes and systems within legal entities, majority-owned joint-ventures, and other business partnerships and outsourcing arrangements. Where regulatory authorities require specific governance arrangements for some Group entities, Internal Audit will establish working protocols with the entity's internal audit function in order to ensure the same level of assurance as with all other entities of the Group. The one and three year audit plans define the priority and frequency of coverage of high, medium and low risks areas.

The key activities of the internal audit function include

- a) Maintain and improve the audit methodology in line with regulatory requirements and best practices (this methodology is detailed in the audit manual)
- b) Design an annual and a 3-year risk based audit plan. The annual plan is presented for approval to the Audit Committee of the Group at the first Committee meeting of the new fiscal year and any subsequent substantial changes to the plan must be approved by the Audit Committee. The 3-year plan provides additional information to validate the audit coverage.
- c) Review the plan on a quarterly basis to ensure it includes new and emerging risks
- d) Maintain and update at least annually the audit universe of the Group
- e) Undertake the audits included in the annual plan. As part of its review activities, Internal audit may propose recommendations as to how internal controls could be enhanced. However, it is for management to determine whether or not to accept the audit recommendations, to propose their own action plan, and/or to recognise and accept the risks of not taking action according to the internal audit methodology. A formal response should be provided by management detailing reasons for their decisions, should they decide to accept the risk of not taking action.
- f) Conduct special reviews (i.e. unplanned work to review particular areas of concern) requested by the Board and/ or management, provided such reviews do not compromise its objectivity or independence
- g) Investigate all instances of whistleblowing reported to the Group Head of Internal Audit



- h) Confirm that management actions resulting from audit findings are being adequately implemented
- i) Maintain a quality assurance and improvement program including internal and external assessments. External assessments must be conducted at least every five years by a qualified, independent assessor
- j) Report regularly to Exco and the Audit Committee on the following matters:
 - Progress against the Audit Plan;
 - Significant control issues identified, actions taken to improve risk management and control processes and overdue audit points
 - Assessment of the adequacy and effectiveness of the Group's risk management and internal control processes;
 - Confirmation of the adequacy of Group Internal Audit's resources.
 - The effectiveness of the internal audit function
 - The number and nature of whistleblowing incidents

Internal Audit may be asked from time to time to provide advice on risk identification, risk assessment, improvement of internal controls, change management or on governance improvements. Whilst acting as an advisor, Internal Audit should ensure that it can remain independent and free of conflict of interest and can still provide objective assurance.

The scope of the Internal Audit function also includes investigation activities. Investigations that can be performed by Internal Audit are limited to internal matters (including whistleblowing incidents) and can be executed jointly with other teams such as Human Resources, Legal and the Regulation teams.

Internal Audit may rely partially on assurance provided by other control functions as well as the audit functions of joint ventures, or subsidiaries subject to performing appropriate due diligence and receiving periodic confirmation on the effectiveness of these control functions. Internal Audit reserves the right to perform its own procedures if insufficient reliance can be placed on the work of other audit functions. From time to time, Internal Audit may receive special requests from management to perform additional audit reviews. The Group Head of Internal Audit will consider each request and ensure it does not impact the cyclical coverage of high risk areas.

There are currently no areas of The Group that are out of scope for Internal Audit.

The detailed approach to audit assurance work and the reporting processes is available in the audit manual updated at least once a year and approved by the Audit Committee.

Internal Audit Standards and Ethics

- Internal audit governs itself by adherence to the mandatory guidance of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the



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Definition of Internal Auditing. The GHIA reports periodically to senior management and the Audit Committee regarding Internal Audit's conformance to the Code of Ethics and the Standards.

- Internal Audit is also expected to comply with the Group's Code of Business Conduct, the Group policies and its core values at all times.
- Internal Audit cooperates transparently with the Group's regulators

The IIA international standards for the professional practice of internal auditing are available at:

<https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Standards.aspx>

The IIA's Code of Ethics can be found at:

<https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Code-of-Ethics.aspx>