

# Audit Committee Report



**Andrew Didham**  
Chair of the  
Audit Committee



Our key focus is oversight of financial reporting and the surrounding internal control environment.”

## Members and attendance

● Meeting attended    ○ Did not attend



**Andrew Didham**  
Chair of the Committee



**Rakesh Bhasin**  
Committee member



**Malcolm Le May**  
Committee member



## FY22 key focus areas

- Client money and assets review
- tastytrade acquisition accounting
- Privileged access management
- Disposal of Nadex and Small Exchange

Andrew Didham, Chair of the Audit Committee, gives his review of the Committee's activities during the financial year.

### Chair's overview

I am pleased to present the Audit Committee Report setting out the Committee's activities during the year and how it has discharged its responsibilities. The Committee has continued to work closely with other Board Committees, in particular the Board Risk Committee, in respect to relevant issues affecting more than one Committee, including operational risk and control developments and strategic developments.

The acquisition of tastytrade and the subsequent disposal of Nadex and Small Exchange has been an area of focus for the Committee during FY22. The Committee has received regular updates on the finance integration of the tastytrade business and in relation to the appropriate reporting of the transactions.

During the financial year, we held a joint meeting with the Board Risk Committee to review and discuss matters common to both Committees. This included review of the Risk Acceptance Policy and Procedure; our ICAAP, ILAA and Recovery Plans; financial and regulatory capital forecasts; and privileged access management. All members of the Audit Committee and Board Risk Committee attended this meeting. It was agreed that this would take place on an annual basis going forward.

### Role of the Audit Committee

The principal roles and responsibilities of the Committee are set out in its Terms of Reference, and include, but are not limited to:

- Reviewing the clarity, completeness and appropriateness of disclosures in the IGGH, IGM, IGI and IGT&I financial statements and the context in which statements are made, including the Going Concern and Viability Statement
- Reviewing and assessing the control environment via Internal Audit reports

- Reviewing and assessing the progress on implementation of audit recommendations via the Control Action List
- Monitoring and reviewing the effectiveness of our Internal Audit function in the overall context of the our internal controls and risk-management systems
- Recommending the appointment of the External Auditor and reviewing its effectiveness, fees, terms and independence
- Monitoring the availability of distributable profits for the purpose of considering dividend payments
- Reviewing and approving our whistleblowing arrangements

The Committee's full Terms of Reference are reviewed on an annual basis and were last reviewed in May 2022. They are available on our website.

### Membership and attendance

All Committee members are independent Non-Executive Directors who between them draw on broad business and financial services experience.

The Code requires that at least one member of the Committee, determined by the Board, has recent and relevant financial experience, and I as Committee Chair continue to fulfil those requirements. The Committee as a whole has competence relevant to the sector in which we operate.

The CFO, CEO, Global Head of Internal Audit, Company Secretary and representatives from PricewaterhouseCoopers LLP (PwC), the External Auditor, attend Committee meetings by standing invitation. Members of senior management from various areas of the business attend the Committee meetings by invitation when necessary.

The Committee has four scheduled meetings a year and will additionally meet if and when required.

### How the Committee operates

To ensure the Committee discharges its responsibilities appropriately, an annual forward calendar, linked to the Committee's Terms of Reference and covering key events in the financial reporting cycle, is approved by the Committee. The Company Secretary and the CFO assist me in drafting the agenda for each Committee meeting.

Following each Committee meeting, a formal report is made to the Board in which the Chair of the Committee describes the discussions and challenges from the Committee meeting, and has the opportunity to escalate any items and make recommendations to the Board as appropriate.

Members of the Committee also meet separately with the Global Head of Internal Audit and the External Auditor to focus on their respective areas of responsibility, and to discuss any potential requirements for support from the Committee to address any issues arising.

### Main activities during the financial year

#### Financial reporting

In relation to financial reporting, the primary role of the Committee is to work with management and the External Auditor in reviewing the appropriateness of the half-year and annual Financial Statements. The Committee discharged its responsibilities in this area through focusing on the following, among other matters:

- Assessing the quality and acceptability of accounting policies and practices
- Ensuring disclosures are clear and compliant with financial reporting standards, and relevant financial and governance reporting requirements
- Considering material areas in which significant judgements and estimates have been applied or there has been discussion with the External Auditor
- Reviewing announcements and Financial Statements prior to issuance, including preliminary and half-year results announcements and recommending these to the Board for approval

- Reviewing the processes to support the assessment and determination of the principal risks that may have an impact on our solvency and liquidity, before recommending and approving the Going Concern and Viability Statement to the Board
- Evaluating on behalf of the Board whether the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess our position and performance, business model and strategy
- Receiving a paper summarising all statements and assurances required of Directors in the Annual Report and Accounts together with evidence to support the Directors' views and required statements
- Overseeing our approach to tax management and control
- Reviewing the inherent risks in the financial reporting process and systems
- Reviewing and considering both audit and non-audit services required.

To aid this review process, the Committee has considered reports from the CFO and his team and the Internal and External Auditors.

The Committee considered and discussed with management and the External Auditor the primary areas of judgement and disclosure in relation to the Financial Statements for FY22, details of which are set out on pages 104 to 109.

## Audit Committee Report continued

Role of the Committee	Discharge of responsibilities	Conclusion/action taken
<b>Going concern and long-term viability</b>		
<p>The Directors are required to make a statement in the Annual Report as to the going concern and longer-term viability of the Group.</p>	<p>The Committee evaluated various reports from management that set out the view of the Group's going concern and longer-term viability. These reports detailed the impact of outcomes of stress tests after applying multiple scenarios to determine how we were able to cope with deterioration in liquidity profile or capital position.</p>	<p>Taking into account the assessment by management of stress-testing results and risk appetite, the Committee agreed to recommend the Going Concern and Viability Statement to the Board for approval.</p>
<b>Carrying value of goodwill and other intangible assets</b>		
<p>In accordance with accounting standards, we are required to review any goodwill balances for impairment and to consider the underlying assumptions used in determining the carrying value of these assets.</p>	<p>The Committee reviewed a report from management setting out the key assumptions used in the impairment review of the goodwill balance and an associated sensitivity analysis. The Committee also considered the work of the External Auditor on goodwill and intangible assets.</p>	<p>Based on the assessment performed, the Committee concluded that there should be no change to the recorded carrying value of the goodwill and other intangible assets.</p>
<p>In addition, we are required to assess whether there is any indication the other intangible assets may be impaired.</p>	<p>An independent external valuation agency has provided support in valuing the US cash-generating unit as part of the annual goodwill impairment testing.</p>	<p>The Committee concluded that adequate disclosure was included within the financial statements.</p>

Role of the Committee	Discharge of responsibilities	Conclusion/action taken
<b>Business combinations and discontinued operations</b>		
<p>During the period, we completed the acquisition of tastytrade and its subsidiaries. We also completed the sale of our 100% holding in Nadex.</p>	<p>The Committee reviewed various reports from management setting out the assumptions used to determine the fair value of assets and liabilities acquired with tastytrade.</p>	<p>Based on the assessment performed, the Committee concluded that the fair value and useful lives of the assets acquired were appropriate.</p>
<p>We are required to properly disclose matters relating to the acquisitions and disposals in our financial statements.</p>	<p>The Committee reviewed a report from management relating to the identification of assets held for sale and the profits associated with the Nadex discontinued operation.</p>	<p>The Committee concluded that adequate disclosure was included within the financial statements.</p>
<p>We are required to consider whether our accounting policies relating to business combinations are appropriate.</p>	<p>The Committee reviewed the disclosures relating to the acquisitions and disposals during the year.</p>	
	<p>The Committee received an update from PwC on recent accounting developments including findings from the FRC Annual Review relating to business combinations.</p>	
<b>Alternative performance measures</b>		
<p>We are required to define any alternative performance measures used and to explain why they are useful or more meaningful to describe the performance during the period.</p>	<p>The Committee discussed the alternative performance measures included within the Annual Report.</p>	<p>The Committee concluded that the alternative performance measures provided a fair representation of business performance and position, and that adequate disclosure was included to reconcile them to the closest UK-adopted International Accounting Standards measures.</p>
<p>We are also required to reconcile them to the closest UK-adopted International Accounting Standards measures.</p>	<p>The Committee received an update from PwC on recent accounting developments including findings from the FRC Annual Review relating to alternative performance measures.</p>	
<b>Tax provisions</b>		
<p>Calculating the Group's corporation tax charge involves a degree of estimation and judgement, as the tax treatment of certain items cannot be finally determined until resolution has been reached with the relevant tax authority. Where appropriate, we hold tax provisions in respect of the potential tax liability that may arise on these unresolved items.</p>	<p>The Committee reviewed a report from management that detailed the assumptions made in calculating the Group's corporation tax charge and provisions. Our External Auditor also provided commentary on this matter to the Committee. The Committee has also reviewed our Tax Risk Management Policy and Tax Strategy.</p>	<p>The Committee concluded that the corporation tax charge and provisions recorded were appropriate and complete.</p>
<p>We have generated tax losses in certain jurisdictions where we operate. We've recognised deferred tax assets in respect of these losses to the extent that future profits have been forecast.</p>		<p>The Committee recommended our Tax Risk Management Policy and Tax Strategy to the Board for approval.</p>

## Audit Committee Report continued

Role of the Committee	Discharge of responsibilities	Conclusion/action taken
<b>Legal entity governance</b>		
To aid with its review of corporate governance, the Committee has received support from the Company Secretary, whose Legal Entity Governance Committee has provided some oversight over the risk-based system for the governance, operation and maintenance of the Group's legal entities.	<p>The Committee noted the work that had been undertaken during the year to review legal entity governance globally, including the development of appropriate procedures and policies.</p> <p>The establishment of a North American Board has helped to strengthen our Corporate Governance Framework following the acquisition of the tastytrade business.</p> <p>Work is underway to ensure appropriate governance arrangements are in place across our other Regulated Entities to support our future growth and strategy through the creation of a new Subsidiary Governance Framework.</p>	The Committee was satisfied with the progress made and the proposal to create a new Subsidiary Governance Framework.

### Control environment

Other matters addressed by the Committee included focus on the effectiveness of our control environment and performance of our IT systems, and the Internal Audit function, including the objectivity and independence of Internal Audit personnel. These are summarised below:

Role of the Committee	Discharge of responsibilities	Conclusion/action taken
<b>Risk management and internal control</b>		
The Committee is required to assist the Board in the annual review of the effectiveness of our Risk Management Framework and internal control systems	<p>The Committee received a report from the Board Risk Committee including an assessment of those risks that might threaten our business model, future performance, solvency or liquidity.</p> <p>It considered and challenged management on the overall effectiveness of the Risk Management Framework and internal control systems.</p> <p>Particular focus was given by the Committee to the control environment in respect of corporate actions, following the significant growth in the number of clients serviced by the Stock Trading and Investments business, and privileged access management.</p> <p>The Committee reviewed the relevant disclosures within the Accountability section of the Governance Report within the Annual Report.</p>	<p>The Committee agreed to recommend to the Board the Annual Report statements relating to the effectiveness of the Risk Management Framework and internal control systems.</p> <p>The Committee has received regular updates from management regarding the positive progress made in these areas to address identified areas for improvement against the agreed action plans.</p>

Role of the Committee	Discharge of responsibilities	Conclusion/action taken
<b>Internal Audit</b>		
<p>The Committee is required to oversee the performance, resourcing and effectiveness of the Internal Audit function.</p>	<p>The Committee monitored and reviewed the effectiveness of our Internal Audit function in the overall context of our internal controls and risk management systems.</p> <p>It reviewed and assessed the risk-based Internal Audit plan.</p> <p>It reviewed and monitored management's responsiveness to the findings of the Internal Audit function.</p> <p>It monitored the consolidated Control Action List, noting themes arising, and reviewed the effectiveness of the function.</p> <p>The Committee received all Internal Audit reports and, in addition, received summary reports on the results of the work of the Internal Audit function on a periodic basis.</p> <p>The Committee reviewed additional Internal Audit reports, not forming part of the annual plan.</p> <p>It reviewed the performance of the Internal Audit function against the plan and an assessment of the effectiveness of the Internal Audit function.</p> <p>The priorities for the Internal Audit function were considered.</p>	<p>The Committee reviewed the resourcing and effectiveness of the Internal Audit function and approved the risk-based audit plan.</p> <p>The Internal Audit function supports the work of the Committee.</p> <p>The Internal Audit function remains effective and has implemented the appropriate processes to ensure this. The function has sufficient resources to deliver the proposed plan.</p> <p>The function continues to be efficient, with robust processes.</p>
<b>Whistleblowing</b>		
<p>The Committee considers the adequacy of our arrangements by which employees may in confidence raise concerns about improprieties in matters of financial reporting or other matters.</p>	<p>The Committee reviewed our Whistleblowing Policy to ensure that it remained fit for our needs.</p>	<p>The Committee decided that the Whistleblowing Policy remained fit for purpose.</p> <p>The Committee concluded that whistleblowing processes were operating effectively during the period under review. All employees acknowledged their understanding of the policy and additional training is also being rolled out.</p>

## Audit Committee Report continued

Role of the Committee	Discharge of responsibilities	Conclusion/action taken
<b>Client money and assets</b>		
The Committee has a responsibility for overseeing our systems and controls relating to the holding and management of client money and assets.	<p>The Committee monitored the effectiveness of the control environment relating to client money and assets and received an annual report on the operation of the Client Money and Assets Committee.</p> <p>The Committee also considered the report from the External Auditor on the client money control environment and operations.</p> <p>The Committee further received regular reports on the control environment of corporate actions.</p>	<p>The Committee reviewed the control environment at both Group and entity level.</p> <p>The Committee considered that the control environment remained effective.</p>

Role of the Committee	Discharge of responsibilities	Conclusion/action taken
<b>Oversight of external audit</b>		
The Committee is required to oversee the work and performance of PwC as External Auditor, including the maintenance of audit quality during the period.	<p>The Committee met with the key members of the PwC audit team to discuss the FY22 audit plan and areas of focus. This included the valuation of tastytrade.</p> <p>It assessed regular reports from PwC on the progress of the FY22 audit and any material issues identified.</p> <p>It debated the draft audit opinion ahead of the FY22 year-end. The Committee was also briefed by PwC on critical accounting estimates, where significant judgement was needed.</p>	<p>The Committee approved the audit plan and the main areas of focus, including the potential risk of management override of controls and the valuation of customer relationships and assessment of the carrying value of the tastytrade cash-generating unit.</p> <p>More information on the Committee's role in assessing the performance, effectiveness and independence of the External Auditor and the quality of the external audit can be found on page 109.</p>

### Audit and audit-related fees

Audit-related fees include those related to the statutory audit of the Group and its subsidiaries, as well as audits required due to the regulated nature of our business. Also included are fees associated with testing of controls relating to our processes and controls over client money and asset segregation.	During the year, the Committee reviewed and approved a recommendation from management on the Company's audit and audit-related fees.	The Committee considers the FY22 audit and audit-related fees to be appropriate given the change in complexity of the Group structure. A breakdown of audit and non-audit related fees is in note 5 to the Financial Statements on page 150.
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Role of the Committee	Discharge of responsibilities	Conclusion/action taken
<b>Non-audit services and fees</b>		
<p>To prevent the objectivity and independence of the External Auditor from becoming compromised, the Committee has a formal policy governing the engagement of the External Auditor to provide non-audit services. The policy is reviewed on an annual basis. The Committee reviewed our policy governing non-audit work against details of regulations on the statutory audit of public interest entities.</p>	<p>The Committee reviewed and approved all arrangements for non-audit fees. Fees in relation to permitted services below £0.05 million are deemed pre-approved by the Committee and are subject to the approval of the CFO. Fees above £0.05 million must be approved by the Committee, through the Committee Chair.</p> <p>The Committee also requested and received an explanation from PwC of its own in-house independence process.</p> <p>The Committee ensured there were no exceptions to fee limits and approval processes, per the policy, during the year.</p>	<p>During the year, non-audit fees of £0.3 million were paid to PwC, as discussed in note 5 to the Financial Statements.</p>

### Effectiveness of the External Auditor

In assessing the effectiveness and independence of the External Auditor, the Committee considered relevant professional and regulatory requirements and the relationship with the External Auditor as a whole. The Committee monitored the External Auditor's compliance with relevant regulatory, ethical and professional guidance on the rotation of partners, and assessed its qualifications, expertise, resources, and quality of people and service provided, including a report from the External Auditor on its own internal quality procedures and independence.

As part of the assessment, a questionnaire was completed by our key stakeholders. The questionnaire addressed matters including the External Auditor's independence, objectivity, the quality of planning and execution of the audit, insights and added value and general support and communication to the Committee and management. The results were analysed, and a report was presented to the Committee.

The Committee assessed the robustness of the audit process, specifically how the auditor challenged management's key assumptions and demonstrated professional scepticism, through discussion with the audit partner, by reviewing PwC's findings on areas which required management judgement and in considering the quality and depth of the auditor's observations and challenge.

Following the review of the effectiveness of the External Auditor, the external audit process and an assessment of the External Auditor's independence and objectivity, the Committee recommends the reappointment of PwC to the Board for approval by shareholders at the Company's 2022 AGM.

There are no contractual obligations restricting choice of External Auditor.

### Committee evaluation

During the year, an evaluation of the performance of the Committee was undertaken in line with the Committee's Terms of Reference. Further information of the evaluation of the Board and its Committees is given on page 70.



**Andrew Didham**  
Chair of the Audit Committee  
20 July 2022