

## Audit Committee Report

### Members

- **Andrew Didham**  
Chair of the Committee
- **Rakesh Bhasin**  
Committee member
- **Malcolm Le May**  
Committee member
- **Susan Skerritt**  
Committee member  
(appointed 1 March 2023)



- Four independent Non-Executive Directors make up our Audit Committee, including individuals with recent and relevant financial experience. Their biographies can be found on pages 58–61
- The Committee met six times during the year, including an ad hoc meeting on tastytrade acquisition accounting in July 2022 and a joint meeting with the Board Risk Committee in September 2022. You can find full details of attendance at Committee meetings on the table on page 64
- The Board Chair, CFO, CEO, CLGO, Global Head of Internal Audit and representatives from the External Auditor, PricewaterhouseCoopers LLP (PwC), attend Committee meetings by standing invitation
- Committee members also meet separately with the Global Head of Internal Audit and the External Auditor at various points in the year so that any issues or concerns may be raised freely to the Committee without management present

### FY23 key focus areas

- Internal controls over Financial Reporting
- tastytrade cash generating unit (CGU) impairment testing
- Privileged Access Management

**Andrew Didham**  
Chair of the Audit Committee

### Chair's Overview

## I am pleased to present the report of the Audit Committee for the financial year ended 31 May 2023, to share with you our activities during the year and how we have discharged our responsibilities.

In my third report as Committee Chair, I am delighted to introduce Susan Skerritt as a Committee Member. Susan joined the Committee on 1 March 2023, adding to her existing Non-Executive responsibilities as a member of the Group Board and Board Risk Committee, and as a Non-Executive Director of the IG US Holdings Inc. Board. With her extensive experience in financial services and the US markets, her appointment further enhances our diversity of skills, experience and thought.

As a Committee, we remained focused on the oversight of financial reporting and the surrounding control environment throughout the year.

I am pleased to report that significant progress has been made in improving the control environment for Privileged Access Management and client money and assets during the year, both of which were key focus areas in last year's report. We continue to closely monitor accounting matters related to the tastytrade CGU, as well as the ongoing integration of internal control processes for the tastytrade business.

During the year, I visited Chicago and Krakow to better understand the financial reporting and other internal controls operated in these locations.

We remain alert to regulatory and legislative developments for matters under our remit. Our annual update from PwC focused on FRC Corporate Reporting updates and on the proposals and timelines for UK Government's Corporate Reform package. Despite some of the uncertainties around the scope and timeframes of the reforms, we are looking closely at internal controls over financial reporting given its importance and we received updates from management throughout the year on our plans. Together with the Board, we are focused and reviewing and reacting to the recent FRC consultation on revisions to the UK Corporate Governance Code and publication setting out the minimum standards for Audit Committees.

## Audit Committee Report continued

We continue to work well with other Board Committees, and once again held a joint meeting with the Board Risk Committee in September 2022 to review and discuss matters common to both Committees, including risk and internal controls. This included: Privileged Access Management, the Risk Acceptance Framework, and the review of financial and regulatory capital forecasts in preparation for our first ICARA and Wind Down Plans under the IFPR Regime. There is a helpful level of cross-committee membership, with Susan Skerritt and I both being Board Risk Committee Members.

As we look forward to FY24, the Committee will continue to focus on Internal Controls over financial reporting and the further integration of the tasty business. The Internal Audit function will also undertake its five-yearly External Quality Assessment which I look forward to reporting on in my next report.

### Role of the Audit Committee

The Committee's principal responsibilities are to:

#### Financial reporting

- Monitor the integrity of the Group's Financial Statements
- Review the significant financial issues and judgements related to the Group's Financial Statements
- Assess the quality and acceptability of accounting policies and practices used
- Review the processes to support the assessment and determination of the principal risks that may have an impact on our solvency and liquidity
- Monitor the availability of distributable profits for dividend payments
- Oversee the approach to tax management and control
- Review the inherent risks in our financial reporting process and systems

#### Control environment

- Monitor the effectiveness of the Internal Audit function
- Monitor the effectiveness of our control environment, including performance of our IT systems, and via Internal Audit reports
- Oversee the systems and controls relating to the holding and management of client money and assets
- Review and approve whistleblowing arrangements
- Provide oversight over the risk-based system for the governance, operation and maintenance of the Group's legal entities

#### External Auditor

- Oversee the relationship with the External Auditor, including annual approval of the external audit plan, review of audit opinions, setting of External Auditor remuneration, and reporting the results of the external audits to the Board
- Monitor the effectiveness, objectivity and independence of the External Auditor, including factors related to the provision of audit and non-audit services

The Terms of Reference of the Committee were last reviewed in May 2023 and are available on our website.

## Audit Committee Report continued

### Main activities during the financial year

#### Financial reporting

In relation to financial reporting, the primary responsibility of the Committee is to work with management and the External Auditor to review the appropriateness of the half-year and full-year Financial Statements. During the year, the Committee:

- Assessed the quality and acceptability of accounting policies and practices used by management and concluded that they were appropriate
- Concluded that disclosures were clear and compliant with financial reporting standards and relevant financial and reporting requirements
- Considered material areas in which significant estimates have been applied or discussed with the External Auditor. The details of the primary areas of significant estimates and disclosure in relation to the Financial Statements for FY23 are set out on pages 131–189
- Reviewed announcements and Financial Statement for full and half-year results and recommended them to the Board

Our other key activities are outlined below:

	Committee Activity	Outcome
<p><b>Going concern and long-term viability</b> The Directors are required to make a statement in the Annual Report as to the going concern and longer-term viability of the Group. The Committee is required to review the processes to support the assessment and determination of the principal risks that may have an impact on our solvency and liquidity.</p>	<ul style="list-style-type: none"> <li>→ Evaluated reports from management that set out the view of the Group's going concern and longer-term viability. These reports detailed the outcomes of stress tests after applying multiple scenarios to determine how we were able to cope with deterioration in liquidity profile or capital position</li> <li>→ Considered, along with the Board Risk Committee, the ICARA underpinning the firm's capital and liquidity adequacy appraisal</li> </ul>	<ul style="list-style-type: none"> <li>→ Agreed to recommend the Going Concern and Viability Statement to the Board for approval, taking into account the assessment by management of stress-testing results and risk appetite</li> </ul>
<p><b>Carrying value of goodwill and other intangible assets</b> 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. In addition, we are required to assess whether there is any indication the other intangible assets may be impaired.</p>	<ul style="list-style-type: none"> <li>→ Reviewed a report from management setting out the key assumptions used in the impairment review of the goodwill balance and an associated sensitivity analysis, including the support provided by an independent external valuation agency in valuing the tastytrade CGU as part of the annual goodwill impairment testing</li> <li>→ Considered the work of the External Auditor on goodwill and intangible assets</li> </ul>	<ul style="list-style-type: none"> <li>→ Concluded that there should be no change to the recorded carrying value of the goodwill and other intangible assets, based on the assessment performed</li> <li>→ Concluded that adequate disclosure was included within the Financial Statements</li> </ul>
<p><b>Alternative performance measures</b> 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 and to reconcile them to the closest UK-adopted International Accounting Standards measures.</p>	<ul style="list-style-type: none"> <li>→ Discussed the alternative performance measures included within the Annual Report</li> <li>→ Received an update from PwC on recent accounting developments including findings from the FRC Annual Review relating to alternative performance measures as part of its May meeting</li> </ul>	<ul style="list-style-type: none"> <li>→ 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</li> </ul>

## Audit Committee Report continued

	Committee Activity	Outcome
<p><b>Tax provisions</b> 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. 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>	<ul style="list-style-type: none"> <li>→ 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 to the Committee on this</li> <li>→ Reviewed our Group Tax Risk Management Policy, Tax Strategy and Tax Governance Framework</li> </ul>	<ul style="list-style-type: none"> <li>→ Concluded that the corporation tax charge and provisions recorded were appropriate and complete</li> <li>→ Recommended the Group Tax Risk Management Policy and Tax Strategy for Board approval</li> <li>→ Approved the Tax Governance Framework</li> </ul>
<p><b>Fair, balanced and understandable</b> The Board is required to provide its opinion on whether it considers that the 2023 Annual Report, taken as a whole, is fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.</p>	<ul style="list-style-type: none"> <li>→ Reported on the preparation of the FY23 Annual Report with the Board, having assessed the quality of reporting through discussion with management and the External Auditor</li> </ul>	<ul style="list-style-type: none"> <li>→ Advised the Board that the Company's FY23 Annual Report is fair, balanced and understandable, following its review</li> </ul>

**Control environment**

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

	Committee Activity	Outcome
<p><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>	<ul style="list-style-type: none"> <li>→ Received a report from the Board Risk Committee on the overall effectiveness of the Risk Management Framework and internal control systems, including an assessment of risks that might threaten our business model, future performance, solvency or liquidity</li> <li>→ Particular focus was given to the control environment during the year in respect of Corporate Actions and Privileged Access Management, where the Committee received regular updates from management regarding the positive progress made in these areas against agreed action plans</li> <li>→ Reviewed the associated disclosures within the Accountability section of the Governance Report in this Annual Report</li> </ul>	<ul style="list-style-type: none"> <li>→ Agreed to recommend to the Board the Annual Report statements relating to the effectiveness of the Risk Management Framework and internal control systems</li> </ul>

## Audit Committee Report continued

	Committee Activity	Outcome
<p><b>Internal Audit</b> The Committee is required to oversee the performance, resourcing and effectiveness of the Internal Audit function.</p>	<ul style="list-style-type: none"> <li>→ Monitored the effectiveness of our Internal Audit function in the overall context of our internal controls and risk management systems</li> <li>→ Reviewed the risk-based Internal Audit plan</li> <li>→ Monitored management's responsiveness to Internal Audit findings</li> <li>→ Reviewed Internal Audit reports and themes arising from them</li> <li>→ Reviewed the performance of the Internal Audit function against the plan, including the results of an internal self-assessment</li> <li>→ Reviewed the Internal Audit Charter</li> <li>→ Reviewed the Internal Audit Scorecard to feed into the FY23 variable remuneration for individuals in the function</li> </ul>	<ul style="list-style-type: none"> <li>→ Approved the risk-based audit plan</li> <li>→ Concluded that Internal Audit function supports the work of the Committee and remains effective, efficient and robust, with appropriate processes</li> <li>→ Considered the function to have sufficient resources to deliver its proposed audit plan</li> <li>→ Approved the Internal Audit Charter</li> <li>→ Recommended the Internal Audit Scorecard as proposed to the Remuneration Committee</li> </ul>
<p><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>	<ul style="list-style-type: none"> <li>→ Monitored the effectiveness of the control environment relating to client money and assets and received, via periodic reporting from management and the Client Money and Assets Committee</li> <li>→ Considered the report from the External Auditor on the client money control environment and operations</li> <li>→ Received reporting on the control environment of Corporate Actions</li> </ul>	<ul style="list-style-type: none"> <li>→ Reviewed the control environment at both Group and entity level</li> <li>→ Concluded that the control environment remained effective</li> </ul>
<p><b>Whistleblowing</b> 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>	<ul style="list-style-type: none"> <li>→ Received periodic reporting from management on the Group's whistleblowing arrangements, including Group and local policies and employee training</li> </ul>	<ul style="list-style-type: none"> <li>→ Concluded that whistleblowing processes were operating effectively during the period under review and that the Whistleblowing Policy remained fit for purpose</li> </ul>
<p><b>Legal entity governance</b> To aid with its review of corporate governance, the Committee has received support from the CLGO and Group Company Secretary, whose Legal Entity Governance Committee (LEGCO) has provided oversight over the risk-based system for the governance, operation and maintenance of the Group's legal entities.</p>	<ul style="list-style-type: none"> <li>→ Received periodic reporting from the LEGCO on the work that had been undertaken during the year to review legal entity governance globally, including the Legal Entity Governance Refresh Project, Delegated Authority and Approvals Framework (DAAF) and Global Legal Entity Governance Policy</li> </ul>	<ul style="list-style-type: none"> <li>→ Recommended the DAAF for Board approval</li> <li>→ Approved the Global Legal Entity Governance Policy</li> </ul>

## Audit Committee Report continued

### External Auditor

Our main activities are summarised below:

	Committee Activity	Outcome
<p><b>Oversight of External Auditor</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>	<ul style="list-style-type: none"> <li>→ Met with the key members of the PwC audit team to discuss the FY23 audit plan and areas of focus</li> <li>→ Assessed regular reports from PwC on the progress of the FY23 audit and any material issues identified</li> <li>→ Debated the draft audit opinion ahead of the FY23 year end. The Committee was also briefed by PwC on critical accounting estimates, where significant judgement was needed</li> </ul>	<ul style="list-style-type: none"> <li>→ 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 CGU</li> <li>→ More information on the Committee's role in assessing External Auditor performance, effectiveness and independence of can be found on page 84</li> </ul>
<p><b>Audit and audit-related fees</b> 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.</p>	<ul style="list-style-type: none"> <li>→ Reviewed and approved a recommendation from management on the Company's audit and audit-related fees during the year</li> </ul>	<ul style="list-style-type: none"> <li>→ Concluded that the FY23 audit and audit-related fees are appropriate. A breakdown of audit and non-audit related fees is in note 5 to the Financial Statements on page 148</li> </ul>
<p><b>Non-audit services and fees</b> 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>	<ul style="list-style-type: none"> <li>→ Reviewed 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</li> <li>→ Received an explanation from PwC of its own in-house independence process</li> <li>→ Received confirmation from management that there were no exceptions to fee limits and approval processes, per the policy, during the year</li> </ul>	<ul style="list-style-type: none"> <li>→ Approved arrangements for non-audit fees. During the year, non-audit fees of £0.2 million were paid to PwC, as discussed in note 5 to the Financial Statements</li> </ul>

## Audit Committee Report continued

**External Auditor Effectiveness**

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 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.

**External Auditor Reappointment**

External audit services were last tendered in FY20, where PwC was reappointed following a competitive tender process. PwC has been our External Auditor for 13 years. The FY23 audit was led by Carl Sizer. Under the partner rotation rules set out in the applicable ethical standards, his final year as partner will be 2025, after five years of service. The Company has complied with the provisions of the Competition and Markets Authority's Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the financial year under review.

The Committee is responsible for making recommendations on the appointment, reappointment and removal of the External Auditor, and for assessing and agreeing the audit and non-audit fees payable to them.

Following our assessment of the effectiveness of the External Auditor, the external audit process and their independence and objectivity, the Committee recommends that the Board propose the reappointment of PwC for shareholder approval at the Company's 2023 AGM.

There are no contractual obligations restricting choice of External Auditor.

**Committee Evaluation**

An evaluation of Committee performance was undertaken this year in line with the Committee's Terms of Reference, as part of the external Board Evaluation exercise facilitated by Better Boards, an independent consultancy, and I am pleased to report that the results for the Committee were very positive. Details of the process, outcome and the actions can be found on pages 72-73.



**Andrew Didham**  
Chair of the Audit Committee  
19 July 2023

**Priorities for the year ahead**

- Monitoring management's response to the proposed reforms to corporate reporting and associated internal controls
- Ensuring the Committee meets the finalised requirements of the FRC concerning minimum standards for Audit Committees
- Overseeing an external assessment of the firm's Internal Audit arrangements
- Continuing to focus on the tastytrade Cash-Generating Unit as part of goodwill impairment testing