

Group Internal Audit Charter

November 2019

Mandate

1. The Group Internal Audit (IA) function should actively support the HKEX Group¹ (the Group) in achieving its business objectives, safeguarding its assets and reputation, and raising its control culture awareness through the provision of objective, independent and insightful assurance services to the Group's boards and management teams. IA utilises a systematic and disciplined approach to evaluate the adequacy and effectiveness of risk management, internal controls and governance processes.
2. The Group operates a "Three Lines of Defence" model to manage risks within its risk appetite across the business. The Group's governance functions are responsible for implementing and operating risk management and internal control activities in line with relevant legislative and regulatory requirements². IA as a third line of defence is responsible for providing assessments of the first and second line activities, and escalating risk and control issues as appropriate. IA should assess not only the process followed by the first and second lines, but also the quality of their work.

Authority

3. IA is empowered by the authority derived from HKEX's Audit Committee, The London Metal Exchange's Audit & Risk Committee and LME Clear Limited's Audit Committee (collectively or individually described as the Audit Committee, or AC) to have unrestricted access to all operations, records, systems, property and personnel of the Group in order to perform its duties. All employees are requested to cooperate fully with IA by making themselves and any materials or information requested by IA available for audit purposes. IA shall apply the same standards of safekeeping and confidentiality with regard to the information as those used by their custodians and comply with the Group Information Security Policy.
4. The Audit Committee serves as an extended arm of the respective Boards, to which IA also has open access. The AC is responsible for monitoring and reviewing the adequacy and effectiveness of policies and procedures regarding internal controls; discussing with management the scope and quality of systems of internal control; and reviewing annually whether management has discharged its duty to maintain an effective internal control system.

Leadership and Reporting Relationship

5. The Group Head of Internal Audit reports functionally to the Chairman of the HKEX Audit Committee and administratively to the HKEX Chief Executive, and is supported by the London Head of Internal Audit, who reports functionally to ACs in London and administratively to local Chief Executive Officers. As IA is a Group function, its resources can be redeployed as necessary to support audit projects in any location.

Independence and Objectivity

6. Aside from its role as an objective and independent assurance provider for the Group, IA should not be involved in management responsibilities, which may impair its professional judgement. Where the Group or London Head of Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairment to independence and objectivity. The reporting relationships and the assigned roles of IA ensure functional independence and adequate consideration of risks and controls.

¹ HKEX Group represents Hong Kong Exchanges and Clearing Limited, or HKEX, and its subsidiaries.

² These include: the Listing Rules, the Companies Ordinance and Securities and Futures Ordinance, the Recognised Investment Exchange and Recognised Clearing House sourcebook, or REC, of the Financial Conduct Authority and the European Market Infrastructure Regulation, or EMIR.

7. The Group Head of Internal Audit is specifically authorised to communicate directly to the Group Chairman and members of the Board. To reinforce independence and objectivity, the HKEX Audit Committee shall review the performance of the Group Head of Internal Audit (including an assessment of whether the individual's independence and objectivity remain unimpaired); and approve decisions regarding the appointment, removal, and remuneration of the Group Head of Internal Audit. At least once a year the Group Head of Internal Audit will meet with the HKEX Audit Committee without any other executives present. The same authority and requirements are applicable to the London Head of Internal Audit with the London ACs.

Scope of Work

8. Audit coverage should be unrestricted and encompass independent reviews and evaluations of all management operations and activities to appraise: measures taken to safeguard assets; relevancy, reliability, integrity and consistency of information, including information systems and technology employed; compliance with relevant laws and regulations, standards and policies; economy and efficiency in the use of resources; and effectiveness and efficiency of internal controls, risk management and corporate governance processes and structures (including information presented to the boards and board committees) in the accomplishment of strategic plans of the Group.
9. IA focuses on assurance services, which are objective reviews of evidence for the purpose of providing reasonable assurance. IA can also provide consulting services (as agreed with management) which are advisory in nature including counsel, facilitation, process design and limited training with the purpose of adding value to the Group. IA may provide assurance services where it had previously performed consulting services, provided the nature of the consulting does not impair objectivity. IA can follow up on reviews to validate management's responsiveness to the findings and recommendations of external auditor and/or regulator reports, and it can conduct investigations to evaluate potential unethical business practices and financial and operational misconduct to determine if allegations are substantiated and to recommend steps to prevent future occurrences.
10. It is management's responsibility to determine the extent of internal controls within the organisation. IA does not assume any management responsibilities in connection with all types of services provided to maintain appropriate objectivity and independence. Recommendations provided by IA for management's consideration should be considered, approved and implemented by appropriate management. IA will, in turn evaluate plans and actions taken to address reported issues. If corrective action on significant issues is not taken, IA will report the matter to the respective AC(s) and respective CE or CEOs. All of the IA reviews or activities can be leveraged by management but should not to be relied on as a substitute for, or supplement to, first or second line activities in cases where IA performs similar testing or activities to those undertaken by the first or second lines.
11. IA should regularly communicate and where appropriate provide assistance to the external auditors. In particular, IA should co-ordinate closely with them to avoid duplication in audit activities including interim and year-end financial audits. IA will also provide an appropriate level of assistance to the regulators (primarily the Securities and Futures Commission, Financial Conduct Authority and Bank of England) when requested.
12. The Group Head of Internal Audit is responsible for:
 - a) Forming his/her own judgement on how best to segment the audit universe given the structure of the organisation;
 - b) Developing an audit plan based on a prioritisation of the audit universe using a risk-based approach by considering all risk categories in alignment with the risk management framework of the Group. IA should form its own judgement on which areas should be covered in the audit plan, and on the frequency and method of audit cycle coverage. At least annually, IA should submit the audit plan and resource requirements to the respective ACs as appropriate for review and approval;

- c) Executing the internal audit projects according to the approved IA plan in adherence to international internal audit practices, professional standards and regulatory requirements;
- d) Ensuring periodic reporting to the respective Audit Committees that oversee the areas reviewed, the progress and results of the approved IA plan, updates of policies, the IA Charter and key administrative matters. Reporting should also cover significant risk exposures and control issues, corporate governance issues, any suspected fraud, irregularities, and other matters needed or requested by the ACs and senior management;
- e) The scope of IA's work should include flexibility to deal with unplanned events and be regularly reviewed to take account of new and emerging risks. Material changes to the approved IA plan, together with the impact of resource limitations should be submitted to the respective ACs as appropriate for approval, and communicated to the respective CE and CEOs;
- f) Ensuring internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved internal audit plan. Where expertise on a certain subject is required, IA may utilise co-source and guest auditors to support the audit work planned; and
- g) Exercising adequate oversight and control of IA, including establishment of policies and procedures to guide the internal audit activities for quality and consistency across the Group, development and maintenance of quality assurance and improvement programmes to ensure audit work fulfils the purposes and responsibilities established.

Professional Standards of Audit Practice

- 13. All IA activities must be undertaken with proficiency and due professional care and are expected to conform to the mandatory guidance as laid down by the Institute of Internal Auditors (IIA), including 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 Definition of Internal Auditing. IA must keep up to date on relevant changes in these areas and adopt them as appropriate. In addition, the Implementation Guidance, Supplemental Guidance and Position Papers issued by IIA will be adhered to as applicable to guide operations.
- 14. All audit activities should remain free of influence by any organisational element, including matters of audit selection, scope, procedures, frequency, timing, or report content. At least annually, the Group Head of Internal Audit and the London Head of Internal Audit should confirm to their respective Audit Committees the organisational independence of IA, which is essential for effective operations of the function. The Group Head of Internal Audit must disclose any interference to the Audit Committee and discuss the implications.
- 15. IA should uphold the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. IA must have an impartial, unbiased attitude and should not place itself in a position where responsibilities and private interests conflict. At all times the highest level of integrity and conduct must be maintained.
- 16. IA staff will undertake periodic training as part of continuous professional development to maintain and enhance Group IA competency and standards. IA staff should be qualified and hold membership of relevant professional bodies³. To be effective, IA has to have adequate resources and qualified staff; they are essential to support its role.
- 17. Policies and procedures should be available to guide the IA activities with high level of quality and consistency across the Group. IA may utilise co-source and guest auditors to support the audit work planned. If they are used, they are required to adopt the same standards and procedures regarding independence as permanent staff and are under the direction of IA management for the duration of their service periods.

³ Professional bodies include the Hong Kong Institute of Certified Public Accountants, Institute of Chartered Accountants in England and Wales, IIA, and ISACA.

Quality and Performance Evaluation

18. The respective Audit Committees should perform annual functional reviews of IA to ensure it continues to conform with all relevant IA standards of audit practice, in particular, ensure the adequacy of resources, staff qualifications and experience, training programmes and budget. In addition, a quality assurance and improvement programme that covers all aspects of IA activities should be implemented and continuously monitored to ensure its effectiveness.

Periodic Review and Approval of the Charter

19. This Charter has been developed with reference to the best practices and standards issued by relevant professional bodies. This Charter has been approved by the respective Audit Committees and will be assessed annually by the Group Head of Internal Audit and London Head of Internal Audit to determine whether the purposes, authority and responsibility defined in the Charter continue to be adequate to enable IA to accomplish its objectives. Any proposed changes require final approval by the respective Audit Committees.