

CAMELOT UK LOTTERIES LIMITED: INTERNAL AUDIT CHARTER

A. Introduction and mission

The role of Internal Audit (IA) is to provide independent and objective assurance, to add value and improve an organisation's operations. IA helps an organisation accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.

The Internal Audit team is incorporated within the Business Assurance (BA) function of Camelot UK Lotteries Limited. Business Assurance ('BA') is an independent function set up within the organisation as a service to the Board of Directors ('Board') and in particular, the Audit, Risk and Security Committee ('ARSC'). BA comprises a number of discrete teams and activities covering Internal Audit, Risk & Insurance and Compliance, utilising a three lines of defence model whereby all three teams are structured and operating independently of each other.

The mission of Business Assurance is to provide an independent and objective assessment of the adequacy and effectiveness of Camelot's risk management, internal control, and compliance and governance procedures.

The Director of Business Assurance ('DBA') is responsible for the effective review of all aspects of risk management and control throughout the organisation's activities.

This charter defines the purpose, role, authority and responsibility in respect of the IA function only.

B. Purpose and objectives

The IA function supports the ARSC in assessing the effectiveness and adequacy of Camelot's internal controls. This is achieved through a programme of reviews based on a continuous assessment of business risk and controls across Camelot.

The objectives of the IA function are to:

1. Provide assurance that an appropriate framework for governance, risk management and control processes is being maintained and adhered to.
2. Provide assurance on the effective application of Camelot's processes for the identification and assessment of business risks.
3. Provide assurance on the effectiveness of the systems and controls used to manage business risks.
4. Provide assurance that the ethical business conduct, including the management of matters that could lead to reputational and / or regulatory risks, is being maintained and adhered to.

C. Authority

The ARSC authorises the IA function to:

1. Have full, free and unrestricted access to any and all of Camelot records, functions, properties, and personnel pertinent to carrying out any engagement with strict accountability for confidentiality and safeguard of records and information.
 - 1.1. All employees are required to assist during the internal audit activity as required.
2. Have free and unrestricted access to the Board, ARSC and its chairperson in executive sessions and between ARSC meetings as appropriate, including in private meetings without management presence.
3. Allocate resources, set frequencies, determine scope of work, and apply the required techniques to accomplish an objective, activity or work.
4. Obtain assistance from external subject matter experts to assist on reviews where required.

For any areas of heightened risk, the DBA will establish additional standards and procedures as may be required to protect the confidentiality and integrity of records and information accessed.

D. Organisation

The DBA reports functionally to the Chairman of the ARSC and reports administratively (i.e. day-to-day operations) to the Chief Financial Officer ('CFO'). The DBA is supported by Head of Internal Audit ('HIA') for the operational management of the IA function.

To establish, maintain, and assure itself that Camelot's IA function has sufficient authority to fulfil its duties independently, the ARSC will:

1. Approve the IA Charter and review on an annual basis.
2. Approve the risk-based audit plan on an annual basis.
3. Approve the resource plan and Internal Audit/co-sourcing budgets. The ARSC will be provided access to IA's budget and the resourcing plan, as may be required on a periodic basis.
4. Receive communications from the DBA on the IA function's performance relative to its plan and other matters.
5. Approve decisions regarding the appointment and removal of the DBA.

E. Independence and objectivity

The DBA will ensure that the IA function remains free from all conditions that may impair the independence of internal auditors to carry out their responsibilities in an unbiased manner. The IA function will also remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content. If the DBA determines that the independence or objectivity may be impaired in fact or appearance, the details will be disclosed to the ARSC, and CEO/CFO as deemed appropriate.

Internal Auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments. The Internal Auditor will discharge their duties and responsibilities objectively without conflict of interest and will not:

1. Assess specific operations for which they had responsibility within the previous year.
2. Perform any operational duties and have any direct responsibility or authority over any of the activities audited for Camelot or its affiliates.
3. Initiate or approve transactions external to the IA function.
4. Implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that are the responsibility of management and may impair Internal Auditor's judgement.
5. The advisory activities provided by IA function will be ring-fenced from other internal audit activities. To avoid any conflicts of interest, IA function will rotate the auditors' assignments to internal audits and advisory activities to ensure they do not review their own work.

Appropriate safeguards and governance structures are in place, including reporting structures, to ensure the objectivity of the DBA does not get diluted through their non-audit responsibilities encompassing Risk & Insurance and Compliance.

The DBA will confirm to the ARSC, at least annually, the organisational independence of the IA function.

F. Scope and responsibilities

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of Camelot's governance, risk management and internal controls. IA function reviews and evaluates the following:

1. Compliance with internal systems and controls.
2. Compliance with policies, processes, laws and regulations.
3. The reliability and integrity of information used in Camelot.
4. The effectiveness of Camelot's systems and controls.
5. The effectiveness of Camelot's governance, policies and processes and their alignment with strategic objectives.
6. The risk and control culture of Camelot.

Whilst the IA function assesses the risks as part of its role, management remains responsible for identifying risks and the design of operations of risk mitigation.

IA function performs the following activities:

1. Make recommendations to improve Camelot's systems / controls and business performance.
2. Report all significant matters to the ARSC and the Executive Management team, as required.
3. Provide assurance that issues are addressed and resolved on a timely basis to mitigate reported risks.
4. May occasionally accept requests from management to undertake special assignments (e.g. advisory activities). The nature, scope and terms of reference for those assignments, which may involve some measure of line responsibility, will be agreed upon beforehand and may also involve assistance from external specialists with approval from management.
5. In addition, whilst management remains responsible for identification and management of fraud risk, IA function may be requested to assist in the investigation of significant suspected fraudulent activities and notify the ARSC of the results, if required. Where regular audit work may reveal either fraud risk or actual fraud and irregularities, this will be separately reported to management and the ARSC.

The DBA is responsible to the ARSC for:

1. Developing a flexible, risk-based audit plan, including any risks or control concerns identified by management, and submitting that plan to the ARSC for review and approval and provide regular updates.
2. Implementing the audit plan, as approved, including as appropriate any special tasks or projects requested by management and the ARSC.
3. Tracking and reporting on management actions to address identified control gaps.
4. Maintaining a sufficient level of resource to deliver the risk-based audit plan and maintain professional audit staff with sufficient knowledge, skills, and experience and professional qualifications to meet the requirements of this charter.
5. Issuing regular reports to the ARSC and management summarising the results of audit activity.
6. Co-coordinating activities and the scope of work of internal and external assurance providers, as appropriate, for the purpose of providing optimal audit coverage and minimising duplication of audit work through an integrated audit approach and plan.
7. Establishing and ensuring adherence to policies and procedures designed to guide the IA function.

The DBA will ensure the plan is sufficiently flexible to allow the IA function to respond to emerging risks and changes in the business and operating environment.

G. Monitoring and reporting

The DBA will periodically report to the ARSC and the Executive Management team on the following matters:

1. The IA function's plan and performance relative to its plan.
2. Any significant interim changes to the IA function's plan.
3. The IA function's conformance with the IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
4. Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the ARSC.
5. Results of audit engagements or other activities.
6. Resource requirements and the impact of resource limitations on the IA function's plan.

H. Quality assurance and improvement programme

The IA function will maintain a quality assurance and improvement programme to ensure consistent, high-quality audit work across Camelot. The programme will include an evaluation of the IA function's conformance with the IIA's Standards and an evaluation of whether Internal Auditors apply the IIA's Code of Ethics. The DBA will communicate to the ARSC and the Executive Management team on the IA function's quality assurance and improvement programme, including results of internal assessments (both ongoing and periodic) and external assessments performed at least every five years by a qualified, independent assessor or assessment team outside Camelot.

I. Compliance with Gambling Commission's requirements

The Gambling Commission ('Commission') awards the operating licence and regulates the operation of The National Lottery under a specific statutory and regulatory regime. The IA function will comply with relevant licence conditions and other requirements of the Commission as they relate to the IA function's role, responsibilities and activities. The IA team will regularly review the licence conditions and request additional support from the Regulatory Affairs team and where appropriate, the Legal team, where a licence condition needs to be understood further.

J. Fraud

Management is responsible for implementing controls to minimise the risk of fraud or corruption. Internal Audit will exercise an appropriate level of professional scepticism during audit field work and be alert to risks and exposures that could allow fraud or corruption to occur.

Discovery of any fraud or irregularity that affects Camelot's affairs should be reported immediately to the relevant management and authoritative bodies.

K. Review and amendments

This Charter is approved by the ARSC and is subject to an annual review to ensure it remains consistent with the IA strategy and objectives.

Approved by the Board 17th June 2020