

Audit and Risk Committee Report



“On behalf of the Committee I am pleased to present the Audit and Risk Committee’s Report for the year ended 31 December 2024. The Report outlines the Committee’s composition and responsibilities, highlighting how we have maintained effective oversight of the Group’s financial reporting, internal control and risk management systems throughout the year.”

Richard Holmes
Chair of the Audit and Risk Committee

Committee members

Richard Holmes, Chair and independent non-executive director

Deborah Davis, Independent non-executive director

Aileen Wallace, Independent non-executive director

The table below shows the number of meetings held and the directors’ attendance during 2024.

Committee member ⁴	Scheduled meetings ¹	No. of meetings attended	% of meetings attended
Richard Holmes	6	6	100 %
Deborah Davis	6	6	100 %
Aileen Wallace ³	4	4	100 %
Katrina Cliffe ²	2	2	100 %

Notes

1. The scheduled meetings that each individual was entitled to, and had the opportunity to, attend.
2. Katrina Cliffe resigned as a member of the Committee in May 2024.
3. Aileen Wallace was appointed as a member of the Committee in May 2024.
4. The Committee members’ expertise, qualifications and relevant experience are set out in each of their biographies on pages 80 to 81.

Dear shareholder,

On behalf of the Committee, I am pleased to present the Audit and Risk Committee’s Report for the year ended 31 December 2024. This report explains the Committee’s work and how we met our audit, risk management and internal control responsibilities.

The year in review

This section sets out how the Committee has addressed both routine and emerging issues during the year. The Committee monitored the consequent impacts on the Group’s Financial Statements closely and, despite continuing uncertainty, was pleased to see the delivery of a strong operational and financial performance.

The Committee also addressed a range of routine matters, receiving regular updates from the internal audit function on internal control matters, including readiness for the Digital Operational Resilience Act (DORA), information security, change management, and product management controls. Where internal audit or the Committee identifies areas requiring improvement, effective processes exist to ensure that the necessary action is taken and that progress is monitored.

The Committee also dedicated time to challenging and approving the 2024 internal audit plan. A final focus for the Committee in the year was our oversight of the process to appoint PKF Littlejohn LLP as the Group’s external auditor.

The year ahead

Despite the increased costs of living being experienced by our customers, we continue to see substantial demand for our broadening portfolio of credit and insurance services, and we will respond to the challenges and opportunities that the execution of our Next Gen strategy brings. The Committee will continue to oversee the development of the Group’s systems of risk management and internal control, and notes in particular, the new requirements of the 2024 UK Corporate Governance Code. We are well placed to discharge our duties in the year ahead.

Committee effectiveness

An effectiveness review of the Board and its Committees was undertaken internally at the end of 2024, which comprised a questionnaire completed by the Committee and its regular attendees, together with an analysis of compliance with the Committee's Terms of Reference. Overall, the Committee concluded that it had operated effectively and that the Committee's Terms of Reference had been complied with throughout the year.

Feedback from this process indicated that the Committee's main areas of focus for 2025 should be on:

- ensuring appropriate focus on ICT risk and managing regulatory change; and
- ensuring appropriate coverage of strategic risk as part of risk management oversight.

Composition, role and responsibilities

The Committee consists of independent non-executive directors and met six times during the year. Members and their attendance at meetings can be found on page 94.

The external auditor, PKF Littlejohn LLP, the Chief Executive Officer, Chief Financial Officer, Chief Information Officer, Group Financial Controller, and the Head of Internal Audit are invited to attend all meetings. Periodically, senior management from across the Group are invited to present on specific aspects of the business. The members of the Committee meet on a regular basis outside scheduled Committee meetings, and the Committee also meets from time to time with the external auditor, without an executive director or another member of the senior leadership team being present.

Functionally, the Head of Internal Audit reports directly to the Chair of the Committee. For routine administrative matters, the Head of Internal Audit's principal contact is the Chief Financial Officer. The Head of Internal Audit operates within a clearly defined remit and has direct access to the Chief Executive Officer and to the rest of the organisation.

The Committee ensures shareholders' interests are protected and long-term value is created. The Committee supports the Board in fulfilling its responsibilities in relation to financial reporting, monitoring the integrity of the Financial Statements and reviewing and challenging any significant financial reporting issues and judgements in relation to the Financial Statements. The Committee's responsibilities are explained fully in its Terms of Reference which are available on our website at www.ipfin.co.uk. The Committee works to a structured programme of activities and meetings to coincide with key events around our financial calendar. Its main responsibilities are to:

- monitor the Group's systems of internal control, including financial, operational and compliance controls, and risk management systems, and to perform an annual review of their effectiveness;
- monitor the integrity of the Financial Statements of the Company and the formal announcements relating to the Company's financial performance, reviewing the significant financial reporting judgements contained in them;
- provide advice to the Board on whether the Annual Report and Financial Statements, taken as a whole, are fair,

Progress in 2024

- Continued to focus on the impact of changes resulting from the Audit Reform debate on assessments by the Committee of the effectiveness of risk management and internal control systems.
- Received and challenged reports on the continuing development of the three lines of defence model.
- Reviewed progress on the development of a control framework for managing technology, change management and inherent information security risks for the Group.
- Oversaw the appointment of a new external auditor.
- Ensured sustainability risks are managed and reported effectively.

Key priorities for 2025

- Review and challenge as necessary updates on the Group's response to the UK Corporate Governance Code 2024.
- Continue to provide oversight on the progress on the development of a control framework for managing technology, change management and information security risks for the Group.
- Ensure appropriate focus on evolving ways of working and culture with an emphasis on understanding and embedding risk management practices that keep pace with the evolving regulatory landscape.
- Inform and guide the Board on sustainability issues and non-financial reporting.

balanced and understandable, and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy;

- make recommendations to the Board, for the Board to put to shareholders at the Annual General Meeting, relating to the appointment, reappointment and removal of the external auditor, and to approve its terms of appointment;
- review and monitor the objectivity and independence of the external auditor and the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements;
- review and approve the internal audit programme for the year and monitor the effectiveness of the internal audit function in the delivery of its plan;
- keep under review the work of the Risk Advisory Group, in particular the Group schedule of key and emerging risks, and consider the principal and emerging risks stated on pages 38 to 43 facing the Group and their mitigation;
- advise the Board on the Group's risk appetite together with the mechanisms that will be used for monitoring adherence to them; and
- provide oversight of sustainability-related impacts risks and opportunities, and reporting.

Activities in 2024

Financial reporting

The Committee reviewed and considered the following areas in respect of the preparation of the half-year and full-year Financial Statements:

- the appropriateness of accounting policies used;
- compliance with external and internal financial reporting standards and policies;
- significant judgements made by management regarding areas of uncertainty;
- disclosures and presentations; and
- whether the Annual Report and Financial Statements are fair, balanced and understandable.

In carrying out this review, the Committee considered the work and recommendations of management, and received reports from the external auditor setting out its view on the accounting treatments and judgements underpinning the Financial Statements.

The significant accounting judgements considered by the Committee were:

- Impairment of receivables: the application of IFRS 9 to the issues arising from the impact of the rising costs of living has the potential for a significant impact on the impairment charge and the calculation of provisions. The key areas of judgement in respect of impairment provisions made against amounts receivable from customers are the parameters used in the expected loss models, the expected timing of future cash flows and post-model overlays. The expected loss models are driven by historical data in respect of probability of default and exposure at default, together with loss given default for each portfolio. At both the half-year and full-year results, the Committee considered a paper prepared by management summarising the work performed to update parameters used in the expected loss and the cash flow timing models, and the judgements applied in this process. This paper also addressed the use of post-model overlays in instances where the most recent trends in the data were felt to be more relevant than some of the more historical information. This was still relevant in 2024 due to the use of costs-of-living post-model overlays arising from a full assessment of expected repayment cash flows in order to calculate the expected impact of these issues on the Group's impairment provisions. Further detail on the post-model overlays considered is given in the key sources of estimation uncertainty section of this Annual Report on page 171. The external auditor performed audit procedures on impairment provisioning, challenging management on its approach to the Group's cost-of-living provision and on its planned accounting treatment for the Group's new credit card product. The external auditor reported its findings to the Committee. The Committee concluded that the receivables impairment provisioning in the Financial Statements was appropriate.
- Revenue recognition: the judgement in respect of revenue recognition is the methodology used to calculate the effective interest rate. The calculation takes into account all the contractual terms together with the extent and timing of customer early settlement behaviour. The external auditor performed procedures to assess management's calculations and assumptions used to calculate the effective interest rate and reported its findings to the Committee. The Committee concluded that revenue recognition in the Financial Statements was appropriate.
- Accounting for credit card receivables: the Company does not yet have sufficient historical credit card data in order to calculate an expected loss provision for the credit card receivables portfolio. At both the half-year and the full-year results, the Committee considered a paper produced by management summarising the approach taken to determine the most appropriate expected loss parameters for this portfolio, and the judgements applied in this process. Further detail on the credit card valuation methodology is given in the key sources of estimation uncertainty section of this Annual Report and Financial Statements on page 172. The external auditor performed audit procedures on the credit card receivables valuation and reported its findings to the Committee, who concluded that the credit card receivables valuation in the Financial Statements was appropriate.
- The Group operates in multiple jurisdictions where the taxation treatment of transactions is not always certain. Management is therefore required to make judgements, based on internal expertise and external advice, on the methodology to be adopted for accounting for uncertain tax positions. Key areas of focus in 2024 included justification of the Group's uncertain tax risk provision and the recognition of the tax asset relating to the repayment of State Aid (see the Financial review on page 34 for further information). The external auditor performed procedures to assess management's judgement and reported its findings to the Committee. The Committee concluded that the provision for uncertain tax risks and the tax asset relating to State Aid included in the Financial Statements were appropriate.

Internal control and risk management

While the Board is responsible for overseeing the Group's systems of internal control, including risk management, the review of its effectiveness is delegated to the Committee. The Group recognises the importance of strong systems of internal control in the achievement of its strategy and objectives. It also recognises that any system can provide only reasonable and not absolute assurance against material misstatement or loss.

The Committee reviews and approves the Group schedule of key risks, which describes the principal risks and uncertainties facing the business. The Board considers the schedule formally on a six-monthly basis and approves risk appetite at least annually. The Committee is supported in its work by the Risk Advisory Group, which in 2024 comprised the Chief Executive Officer, Chief Financial Officer, Group Credit Director and Chief Legal Officer, together with other members of the senior leadership team. The Risk Advisory Group meets four times a year. It reports to the Audit and Risk Committee and considers the risk assessments and risk registers produced in each country and updates the Group schedule of key risks. It also considers emerging risks, areas of specific risk, and particular issues. For further details, see pages 38 to 43.

The Committee challenged robustly the identification, assessment and planned mitigation of the principal risks facing the business, notably in the light of the evolving regulatory landscape.

The Committee also continued to pay close attention to heightened cyber risk. Although now considered a business-as-usual threat, the rapid and continuous developments of this risk are notable for all financial services businesses with threat actors becoming more professional and employing increasingly sophisticated methods. Consequently, the potential impact of ransomware attacks is now higher, posing significant operational and reputational risks. For further details of our mitigating actions, please refer to the Information security and cyber risk disclosure on page 43. The implications of DORA, which came into full force in January 2025, also remain a key area of focus for the Committee.

Regulatory developments in 2024 were evident in two broad areas. First, were the market-specific regulatory changes driven by prevailing political pressures. These include the introduction of a cap on the total cost of credit in Romania, applicable to loans issued by non-banking financial institutions (NBFIs), through specific consumer legislation that took effect in November 2024. Second, was a continuing programme of new regulation from the European Union, including the transposition of the Second Consumer Credit Directive, and a series of changes in the areas of marketing of financial products, AI, gender pay, business continuity and information security, sustainability reporting and open banking.

Additionally, the Committee received regular updates on key tax issues and ongoing tax audits within the Group, together with the Organisation for Economic Co-operation and Development and European Union international tax initiatives that could potentially impact the Group in the future. Details of the current status of tax audits are included in our principal risks and uncertainties on page 41.

The Committee will continue to assess the impact of these matters on the business and will monitor management's response throughout 2025.

The internal control environments in place to manage the impact of each risk are monitored by the Committee on a regular basis, as are the principal actions being taken to mitigate them. The Committee requests additional presentations on key business areas, as necessary, to supplement its understanding of control environments in place. The areas covered by these in 2024 are referred to in the 'Training' section on page 99.

Through the Committee, the internal audit function provides independent assurance to the Board on the effectiveness of the systems of internal control. The Committee provides oversight and direction to the internal audit plan, which is developed using an inherent risk-based approach. The audit plan provides independent assurance over the integrity of internal controls and the operational risk management framework. In addition, the external auditor communicates to the Committee any deficiencies in the internal control environment it observes as part of its audit procedures.

Internal audit

The internal audit function's purpose, authority and responsibilities are defined in its Charter, which is reviewed and approved annually by the Committee. Internal audit is an independent assurance function within the Group providing services to the Committee and all levels of management. It has no responsibility for operational business management and its remit is to provide objective assurance over the design and operating effectiveness of the systems of internal control, through a risk-based approach. It also provides insight, delivers value, and helps the organisation to achieve its priorities. The internal audit function does this by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

The Head of Internal Audit reports to the Chair of the Committee with administrative oversight from the Chief Financial Officer.

The internal audit function comprises teams across our markets and at the Group head office in the UK. The internal audit function has a high level of qualified personnel with a wide range of professional skills and experience. Co-sourcing agreements with the largest professional services firms ensure access to additional specialist skills and an advanced knowledge base.

The Committee has a permanent agenda item to cover internal audit-related topics. Prior to the start of each financial year, and at the half year, having considered the principal areas of risk within the business, the Committee reviews and approves an inherent risk-based internal audit plan, assesses the adequacy of the available internal audit resources and considers the team's operational initiatives for its continuous improvement.

The Committee reviews progress against the approved internal audit plan and the results of audit activities, with a focus on unsatisfactory audit results which require timely attention. During the year, the internal audit function focused on the Group's efforts to control its principal risks which included regulation, reputation, information security and cyber threat, and the execution of projects and initiatives of strategic importance. The Committee monitors progress on the implementation of any action plans arising from significant audit findings to ensure they are completed satisfactorily.

Internal audit activities are based on a robust methodology and are subject to an ongoing programme of internal quality assurance reviews. The function has invested in several initiatives to continuously improve its effectiveness, including a third-party quality assessment which last reported in early 2019 and concluded positively on the effectiveness of the function. Following the appointment of a new Head of Internal Audit in September 2024, the aim is to undertake a similar exercise in 2025. The team measures its operational effectiveness and efficiency via a set of key performance indicators which are reported at each meeting of the Committee, and via individual post-audit quality assessments by addressees, the results of which are also reported to the Committee.

The Committee is satisfied that the quality, experience and expertise of the function are appropriate for the business.

Appointment of external auditor

The Committee is responsible for conducting the process to select the Group's external auditor and recommend its appointment, reappointment or removal to the Board for approval by shareholders at each AGM.

After completing a robust tender process overseen by the Committee, the Board recommended that PKF Littlejohn LLP be appointed as external auditor at the Group's 2024 AGM. The recommendation was subsequently approved by shareholders. The Committee is pleased to note that there has been a smooth transition in the change of external auditor from Deloitte LLP and we have quickly developed a collaborative relationship and constructive engagement with the new external audit team.

External auditor effectiveness and independence

The Committee considered the external auditor's assessment of the significant risks in the Group's Financial Statements set out in its audit plan, and approved the scope of the external audit that addressed these risks. The Committee considered these risks and the associated work undertaken by the external auditor when forming its judgement on the Financial Statements.

In line with its established practice, the Committee monitored the effectiveness and conduct of the external auditor by reviewing:

- the experience and capabilities of the auditor and the calibre of the audit firm;
- provision of non-audit services;
- robustness and perceptiveness of the external auditor in its handling of key accounting and audit judgements;
- the interaction between management and the external auditor;
- the delivery of its audit work in accordance with the agreed plan; and
- the quality of its report and communications to the Committee.

The effectiveness of the external audit process is normally evaluated in June of each year via a questionnaire which is completed by the Committee members and attendees, and by business unit finance directors across the Group. However, as the Group's new external auditor was appointed at the 2024 AGM in May, the first effectiveness review of PKF Littlejohn LLP will be conducted in June 2025.

In order to confirm its independence and objectivity, the external auditor reports on its independence to the Committee. In addition, the Committee ensured compliance with the Group's policy on the use of the external auditor for non-audit services. The key requirements of this policy are:

- the external auditor is prohibited from providing certain services which include the following: tax services; payroll services; designing and implementing internal controls or risk management procedures; legal services; internal audit services; human resource services; valuation services; or general management consultancy; and
- the Committee Chair must approve any individual non-audit service over a specific fee level.

The policy of the Committee in respect of non-audit services is that the external auditor is only appointed to perform a non-audit service when doing so would be consistent with both the requirements and overarching principles of the Financial Reporting Council's Revised Ethical Standard (2019), and when its skills and experience make it the most suitable supplier.

The Committee believes that the Group receives a particular benefit from certain non-audit services where a detailed knowledge of its operations is important or where the auditor has very specific skills and experience. Other large accountancy practices are also used to provide services where appropriate. Consequently, the Committee is satisfied that PKF Littlejohn LLP was independent throughout 2024.

Non-audit services carried out by PKF Littlejohn LLP in 2024	Fee £000
Other assurance services	212

Training

The Committee, with the Board, undertook a significant amount of training during 2024. This included presentations on the following key business areas:

- an update on strategic risk assessment;
- an update on regulatory risks;
- an internal control update regarding the Group's whistleblowing arrangements;
- explanation of oversight arrangements in place in respect of bribery, compliance and privacy;
- a recap by the external auditor on Audit and Risk Committee responsibilities, focus areas and best practice;
- calculation and oversight of revenue and impairment under IFRS 9 in the evolving economic environment;
- an overview of DORA;
- a cyber security briefing; and
- a refresh on the UK Market Abuse Regulation overview of purchase finance, lending process automation and digital marketing in IPF Digital.

This training was complemented by discussions directly with management teams in connection with specific focus areas in the Group.

Review of the effectiveness of the internal control and risk management systems

On behalf of the Board, with the assistance of the internal audit function, the Committee monitored the Group's internal control and risk management systems, and its processes for managing principal and emerging risks throughout 2024, and on the basis of the work performed by the management team throughout the year and reported to the Committee at each meeting, has assessed that these are effective. In addition, the Committee, where appropriate, ensures that necessary actions have been or are being taken to remedy identified failings or weaknesses in the internal control framework. These processes were in place throughout 2024 and up to 26 February 2025.

Annual Report and Financial Statements

The Committee has reviewed and considered the Annual Report and Financial Statements, in line with other information the Committee has considered throughout the course of the year. It concluded, and recommended to the Board, that the Annual Report and Financial Statements 2024, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Richard Holmes
Chair of the Committee

26 February 2025