

Internal Audit Committee Charter

Purpose

The Internal Audit Charter (the Charter) provides the functional and organisational framework within which the Fortescue Metals Group Limited (Fortescue) Internal Audit function operates. This document sets out the nature, role, status, authority and responsibility of Internal Audit.

This document should be read in conjunction with the Audit & Risk Management Committee (ARMC) Charter.

Mission and Role of Internal Audit

The mission of the Internal Audit function is to provide independent, objective assurance and consulting services designed to add value and improve Fortescue's operations. It helps Fortescue accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of work of the Internal Audit function is to assist the Board discharge its oversight responsibilities as regards governance, risk management and internal control. Specifically, Internal Audit's role is to assess whether the governance, risk management and control processes of Fortescue, as designed and represented by management, are adequate and functioning in a manner to provide a reasonable level of confidence:

- Significant key risks are appropriately identified and managed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and protected adequately.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in Fortescue's control process.
- Significant legislative or regulatory issues impacting Fortescue are recognised and properly addressed.

The overriding aim is to provide value add to the business and to support the Directors in fulfilling their fiduciary duties in relation to oversight of corporate governance, risk management and internal control frameworks and practices within the organisation.

Independence and objectivity

The Internal Audit function must be, and must be seen to be, independent of the activities and processes it appraises in order to ensure it is able to perform its duties objectively and provide impartial advice to management and the Board.

The Group Manager Risk & Assurance has managerial and line responsibility for the Internal Audit function. Those people involved in delivery of the Internal Audit program must not have any line responsibility or authority over any of the activities or operations they review and (except in rare circumstances as approved by the CFO/ARMC) are not authorised to:

- Perform any operational duties except within the risk management and Internal Audit functions;
- Initiate or approve accounting transactions not related to the risk management and Internal Audit functions;
- Direct the activities of any resource not employed by the risk management and Internal Audit functions; and/or
- Engage in any other activity which could compromise their objectivity.

Any external service providers that are engaged to support the delivery of Internal Audit must also be aware of the above protocols. Service providers must immediately notify the Group Manager Risk & Assurance of any services that have the potential to create an actual or perceived conflict of interest.

Internal Audit should seek approval from the ARMC in relation to all non-Internal Audit services provided by any Internal Audit service provider. This requirement is reflected in the ARMC Charter.

It is the responsibility of the Group Manager Risk & Assurance to communicate to the CFO and the Chair of the ARMC any perceived or potential conflicts that may compromise the objectivity or independence of the Internal Audit function.

Accountability and Responsibility

The Group Manager Risk & Assurance reports:

- (i) functionally, to the ARMC in respect to the outcomes/findings of Internal Audit reviews.
- (ii) administratively, through the CFO (or designate).

The ARMC approves and advises the Board on the appointment or dismissal of the Group Manager Risk & Assurance. The Group Manager Risk & Assurance has responsibility to:

- Prepare an annual budget for review and approval by the ARMC;
- Develop a flexible, annual risk based audit plan that references the risk profile of Fortescue and includes any risks or control concerns identified by management;
- Submit the annual audit plan to the ARMC for review and approval;
- Implement the annual Internal Audit Plan, including any special tasks or projects requested by management, the ARMC, or the Board;
- Regularly review the plan to consider the effect of any significant merging, consolidating or changing functions and new or changing services, processes and operations;
- Regularly report on the status of the Internal Audit activity, including progress against the plan, to the ARMC;
- Monitor and track the status of Internal Audit recommendations and corrective actions taken by management;
- Ensure that any changes to the annual audit plan are approved by management and the ARMC;
- Maintain sufficient audit resources (internal and external) with an appropriate level of knowledge, skills, experience and professional qualifications to meet the requirements of this Charter;
- Conduct audits in accordance with the relevant Internal Audit methodology, policies and procedures and relevant professional bodies;
- Maintain a quality assurance and improvement program that covers all aspects of Internal Audit's activities, including an annual evaluation of Internal Audit's conformance with this Charter and the professional standards issued by the Institute of Internal Auditors;
- Issue detailed audit reports to management and the Chairman of the ARMC and include a summary audit report in each status report to the ARMC;
- Keep management and the ARMC informed of emerging trends and successful practices in Internal Auditing;
- Manage and administer any tendering process associated with the selection and appointment of third party Internal Audit service providers; and
- Manage the ongoing relationship with any third party Internal Audit service providers to ensure the efficient and effective delivery of Internal Audit services.

Access

Internal audit activity will encompass all controlled entities within Fortescue group. Internal audit may also review the activities of other relevant entities such as joint ventures or suppliers where access arrangements are in place.

Internal audit has full, free and unrestricted access to all relevant records, documentation and physical property as may be required to fulfil its responsibilities. Internal audit also has access to records relating to strategies, policies and priorities established by the board and senior management.

Internal audit has the authority to seek any information it requires to fulfil its responsibilities from any officer, employee, contractor or consultant related to Fortescue's activities.

FMGL employees are expected to be available and provide such information and explanations as are required for the conduct of Internal Audit activities.

Internal audit has direct access to the Chair of the ARMC and vice versa.

Plan Approval, Review Process and Reporting

An Annual Internal Audit Plan will be developed in conjunction with management and is approved by the ARMC. Internal audit may revise the annual plan to meet changed business needs. Such revisions are effective after approval by the ARMC.

A written report will be prepared for every review within the Annual Internal Audit Plan. The reports will be concise and provide a summary of work performed for each scope item and will set out findings and agreed management actions to address areas where controls are not considered to be adequate. The reports will include at a minimum:

- The scope of the review;
- Relevant contextual information;
- A summary of the control issues/findings that arose from the review;
- Agreed management actions; and
- Overall control effectiveness rating and priorities (Effective, Improvement or Priority) for agreed management actions.

Each report must be discussed with the review sponsor, the CFO and the CEO before the report is finalised and issued.

A summary report will be provided by the Group Manager Risk & Assurance to the ARMC at each Committee meeting for Internal Audit reviews completed since the last meeting of the ARMC. The summary report must include appropriate summarised details of any significant risk exposures and control deficiencies, including fraud risks, governance issues, and other matters needed or requested by senior management and the ARMC reported and must report progress of activity against the approved plan.

Internal audit will maintain a register of agreed management actions arising from each review. Closure of these actions will be monitored by Internal Audit and follow up reviews may be scheduled to validate closure.

The status of agreed management actions shall be reported to ARMC meetings by the Group Manager Risk & Assurance.

Relationship with External Auditor and Other Assurance Functions

In order to enhance audit efficiencies, Internal Audit will liaise regularly with the external auditor to:

- Co-ordinate work to ensure that duplication of effort is minimized;
- Advise on outcomes of Internal Audit reviews; and
- Provide access to Internal Audit work papers and documentation where they are relevant to external audit activity.

It is the sole responsibility of the external auditor to determine the extent to which they can rely on the work of the Internal Auditor.

Internal audit must consider the work performed by other external and internal assurance functions when setting the annual Internal Audit plan and scoping individual reviews.

Standards

The Internal Audit team is expected to comply with professional standards and maintain high levels of service. In doing so it will have regard to:

- The Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors; and
- Any other professional standards relevant to its professional standing.

Internal audit team members are expected to:

- Have a broad knowledge of the operations of the business;
- Remain informed about the significant issues affecting or likely to affect business operations and be responsive to changing organisational needs;
- Maintain their technical competence and build on their professional qualifications and skills through continuing;
- Keep abreast of relevant best practice and new developments impacting their work;
- Maintain their independence;
- Be prudent in the use of information acquired in the in the course of their work; and
- Maintain a constructive relationship with other staff encountered in the course of their duties.

These standards are applicable regardless of whether Internal Audit services are partially or fully outsourced.

Review of Charter

The Charter is reviewed every two years to ensure continued relevance of the function. The outcomes of the review are reported to the ARMC which may consider changes to the Charter.

This Charter was approved by the Board of Fortescue Metals Group Ltd on 26 May 2020.