

Audit and Risk Committee

Terms of Reference

Document control

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1. Purpose

The purpose of the Audit and Risk Committee (the “Committee”) is to support and advise the Board by providing oversight of UKIB’s financial reporting processes, the internal and external audit processes, the system of internal controls including the identification and management of significant risks and compliance with applicable laws, regulations and government guidelines.

In doing so, the Committee will:

- 1.1 Ensure the financial resources are in place for UKIB to achieve its objectives as provided for in the UK Infrastructure Bank Act 2023 and reflected in its Articles of Association (“Strategic Objectives”).
- 1.2 Take into account, as appropriate, the requirements of the framework document (“Framework Document”) entered into between UKIB, UK Government Investments and His Majesty’s Treasury as UKIB’s sole shareholder (“Shareholder”).
- 1.3 Ensure the Board of Directors (the “Board”) receives and reviews regular financial information concerning the management of UKIB and is informed in a timely manner about any concerns regarding the activities of UKIB; and
- 1.4 Ensure that any statutory or administrative requirements for the use of public funds are complied with and that the Board operates within the limits of its legal authority and any delegated authority agreed with the Shareholder, and in accordance with any other conditions relating to the use or risk of public funds.

2. Membership

- 2.1 The Committee shall comprise at least three members, all of whom shall be Non-Executive Directors and one of whom shall be the Shareholder Representative Director (as defined in the Framework Document).
- 2.2 Members of the Committee shall be appointed by the Board further to the recommendation of the Nomination Committee and in consultation with the Chair. Appointments to the Committee shall be for an initial term of no more than four years (or such shorter period as may be specified in the terms on which the director is appointed), The initial term may be followed by one further term of up to a maximum term of four years, subject to mutual agreement and meeting required performance standards. The Board may vary membership of the Committee from time to time as it sees fit.
- 2.3 Any director may appoint an alternate director in accordance with the requirements of UKIB’s Articles.
- 2.4 Members of the Committee should, collectively, have a good range of skills and competence relevant to accounting, audit, risk management, financial governance, and technical issues such as are relevant to UKIB. At least one member shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies.
- 2.5 The Board Chair has the right to attend Committee meetings but will not be a member of the Committee. Other than the Board Chair, only members of the Committee have the right to attend Committee meetings. However, the Chief Executive Officer, Chief Financial Officer and Chief Risk Officer, Head of Internal Audit Services and external auditor will be invited to attend Committee

meetings on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary, at the discretion of the Chair.

- 2.6 The Board shall appoint the Chair who will be an independent Non-Executive Director. In the absence of the Chair and/or a deputy appointed by the Chair in advance (who shall also be an independent Non-Executive Director), the remaining members in attendance shall elect one of themselves as deputy to chair the meeting, so long as they are an independent Non-Executive Director.

3. Secretary

- 3.1 The Company Secretary, or their nominee(s), shall act as the secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to matters arising.

4. Quorum and voting arrangements

- 4.1 The quorum necessary for the transaction of business shall be two members. One of these must be the Chair, or a nominated deputy; and another must be the Shareholder Representative Director (or an alternate director appointed by the Shareholder Representative Director). Directors acting in addition as alternate directors shall count only as one member for the purposes of determining whether a quorum is present.
- 4.2 Every person acting as an alternate director shall have one vote for each director for whom they act as alternate, in addition to their own vote if they are also a director. Decisions arising at a meeting shall be decided by a majority vote or be referred to the Board for further consideration. In the case of an equality of votes, the Chair (or their deputy) shall have the casting vote.
- 4.3 In the absence of the Shareholder Representative Director, including where an alternate Shareholder Representative Director has been appointed, the Shareholder representative, UK Government Investments, may nominate a "Shareholder Representative Observer" to attend a meeting of the Committee. The Shareholder Representative Observer may not cast a vote in Committee decisions and shall not count towards the quorum.
- 4.4 At the start of each meeting of the Committee, each member will disclose to the Committee any actual or potential conflict of interest in any matter to be decided by the Committee. Any such member who cites disclosures may be asked to recuse themselves from the meeting if the Committee determines that there is a conflict of interest in relation to a particular item of business to be discussed and will abstain from voting on those resolutions where a conflict is deemed to have arisen.

5. Frequency of meetings

- 5.1 The Committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 5.2 Outside of the formal meeting programme, the Chair will maintain a dialogue with key individuals involved in the governance of UKIB, including the Board Chair, the Shareholder Representative Director, the Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer, the Company Secretary, the external auditor and the Head of Internal Audit Services.

6. Notice of meetings

- 6.1 Meetings of the Committee shall be called by the Company Secretary or their nominee(s) at the request of the Chair or any of its members, or, if they consider it necessary, at the request of the external auditor or the Head of Internal Audit Services.
- 6.2 Unless otherwise agreed, notice of each meeting, confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend, and all other directors, no later than five working days before the date of the meeting, wherever possible. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time.
- 6.3 Notice is treated as properly given if it is given personally, by word of mouth or in writing (including electronically) to the director's last known address or any other address given by the director to the company for this purpose. Any director can waive entitlement to notice of any directors' meeting, including one which has already taken place and any waiver after the meeting has taken place will not affect the validity of the meeting or any business conducted at the meeting.

7. Minutes of meetings

- 7.1 The Company Secretary (or their nominee) shall minute the proceedings and decisions of all Committee meetings including recording the names of those present and in attendance.
- 7.2 Draft minutes of each Committee meeting shall be shared with the Chair within two weeks of the meeting. The minutes shall be made available to all other members of the Committee and the Company Secretary (unless it would be inappropriate to do so in the opinion of the Chair) and approved at the next Committee meeting. The minutes will be available to the Shareholder, if so requested, once finalised and approved by the Chair subject to the caveat above.
- 7.3 Final copies of the Committee meeting minutes shall be maintained for UKIB records.

8. Engagement with the Shareholder

- 8.1 The Shareholder Representative Director shall be a member of the Committee, helping to ensure the engagement of the Shareholder on significant matters related to the Committee's areas of responsibility.

9. Duties

The Committee shall carry out the following duties, taking into account the relevant aspects of the UK Corporate Governance Code ("the Code") and paying due regard to the requirements of UKIB's Framework Document and financial framework):

9.1 Going concern

Ensure UKIB has the necessary written assurance from the Shareholder that it will continue to provide the required financial support to enable UKIB as a going concern.

9.2 Financial reporting

- 9.2.1 Monitor the integrity of the financial statements of UKIB, including its Annual Report and Accounts, interim management statements, and any other formal reports relating to its financial performance, reviewing, and reporting to the Board on significant financial

reporting issues and judgements which they contain, having regard to matters communicated to it by either the Head of Internal Audit Services or the external auditor.

9.2.2 Review, challenge and recommend to the Board for approval, where necessary:

- i. the application of significant accounting policies and any changes to them;
- ii. the methods used to account for significant or unusual transactions where different approaches are possible;
- iii. whether UKIB has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements;
- iv. The clarity and completeness of disclosure in UKIB's financial statements and the context in which statements are made; and
- v. all material information presented within the Annual Report and Accounts, including the Performance and Strategic Report and Accountability Report.

9.2.3 Review, challenge, and approve where necessary the methodology used to prepare performance-related or other financial information to be published or provided to the Shareholder.

9.2.4 Report dissatisfaction with any aspect of the proposed financial reporting by UKIB to the Board.

9.2.5 Review whether UKIB's financial statements, to the extent necessary, comply with:

- i. Companies Act 2006 and any relevant accounting standards;
- ii. Any bespoke reporting requirement from the Framework Document or Financial Framework;
- iii. The Accounting Officer's compliance with the relevant requirements of Chapter 3 of Managing Public Money in particular with regard to propriety, regularity and value for money;
- iv. Government Financial Reporting Manual;
- v. The reporting requirements of the Public Accounts Committee;
- vi. The annual Financial Delegation and Budget Allocation; and
- vii. The financial reporting requirements of the Shareholder.

9.2.6 Support the Board in providing its recommendation to the Accounting Officer for the approval of UKIB's financial statements, their consolidation into the Annual Report and Accounts of the Shareholder and subsequent laying before Parliament.

9.3 Risk management and internal control

9.3.1 Keep under review the adequacy and effectiveness of UKIB's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems, including but not limited to, controls to prevent and detect fraud, bribery and corruption.

9.3.2 Make recommendations to the Board on UKIB's overall risk appetite and strategy, taking account of the current and prospective macroeconomic and financial environment and

drawing on financial stability assessments such as those published by relevant industry and regulatory authorities including the Bank of England, the Prudential Regulation Authority, the Financial Conduct Authority and other authoritative sources that may be relevant to UKIB's risk policies.

- 9.3.3 Review and recommend for Board approval UKIB's policies in relation to its principal risks and assess UKIB's capability to identify and manage new risk types.
- 9.3.4 Review and advise the Board on the key financial and non-financial risk exposures of UKIB (including market, credit, operational, regulatory, financial crime, financial soundness and strategic and business model) with reference to the limits, metrics and risk appetite and consider the company's monitoring of key trends and concentrations.
- 9.3.5 Consider the profile of risk and return in the context of the financial performance of UKIB.
- 9.3.6 Evaluate UKIB's governance, risk and control framework to satisfy itself as to the design and completeness of the framework relative to UKIB's activities and risk profile. In performing this assessment, the Committee shall:
 - i. Propose to the Board principles and policies which support UKIB's overall risk appetite, including the Risk Management Framework;
 - ii. Review the principal methodologies used in the assessment of principal risk categories; and
 - iii. Advise the Board on UKIB's preparedness in terms of adhering to good practice risk management policies and procedures in order to ensure appropriate limits, controls and governance are in place for controlling all aspects of risk including reputational risks.
- 9.3.7 In relation to risk assessment:
 - i. Keep under review UKIB's overall risk assessment processes that inform the Board's decision making, ensuring both qualitative and quantitative measures are used;
 - ii. Review regularly and approve the parameters used in these measures and the methodology adopted; and
 - iii. Set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance.
- 9.3.8 Review promptly, and approve as appropriate, submissions to the Committee by the CRO and consider management's responsiveness to the findings and recommendations of the CRO. Such reporting may from time to time include:
 - i. summaries of independent second line reports in relation to compliance with company policies and procedures including the oversight of potential conduct risks;
 - ii. reports on any material breaches of risk limits and the adequacy and effectiveness of corrective action(s);
 - iii. the statements to be included in the Annual Report and Accounts concerning principal risks, internal controls and risk management;

- iv. the annual report from the Money Laundering Reporting Officer;
 - v. revisions and updates to the Risk Management Framework; and
 - vi. the Compliance Charter.
- 9.3.9 Keep under review the adequacy and effectiveness of UKIB's compliance capabilities within the risk and compliance function.
- 9.3.10 Consider and approve the remit of the risk management function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate independence and is free from management and other restrictions.
- 9.3.11 Contribute to the performance appraisal of CFO, CRO and Head of Internal Audit Services.
- 9.3.12 Ensure the CRO shall be given the right of unfettered direct access to the Board Chair and to the Chair.
- 9.4 Narrative reporting
 - 9.4.1 Review the content of the Annual Report and Accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for the Shareholder to assess UKIB's performance, business model and strategy and whether it informs the Board's statement in the Annual Report on those matters that are required under the Code.
 - 9.4.2 Review non-financial disclosures (including those relating to sustainability, climate and ESG matters) which may impact the financial statements.
- 9.5 Internal Audit Services
 - 9.5.1 Approve the appointment or termination of appointment of the Head of Internal Audit Services and any outsourcing arrangements as may be used from time to time by the internal audit function.
 - 9.5.2 Review and approve the Internal Audit Services Charter and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate and is equipped to perform in accordance with appropriate professional standards for internal auditors.
 - 9.5.3 Ensure the Head of Internal Audit Services has direct access to the Board Chair and to the Chair and is accountable to the Committee.
 - 9.5.4 Review and approve the annual Internal Audit Work Plan to ensure it is aligned to the key risks of the business.
 - 9.5.5 Receive a report on the results of Internal Audit Services' work on a periodic basis but at least once a year.
 - 9.5.6 Review and monitor management's responsiveness to findings and recommendations raised by Internal Audit Services.
 - 9.5.7 Meet with the Head of Internal Audit Services at least once a year without the presence of management, to discuss and assess the effectiveness of the function in the context of

UKIB's risk management system and the work of Compliance, Risk, Finance and the external auditor.

9.6 External auditor

The Committee shall take into account the limits of its authorities as set out in the Framework Document, in respect of the appointment of external auditor and, subject to these limits, shall:

9.6.1 Review the quality and effectiveness of the services provided by the incumbent auditor.

9.6.2 Oversee the relationship with the external auditor including (but not limited to):

- i. Reviewing the remuneration fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high-quality audit to be conducted;
- ii. Approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- iii. Assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the external auditor as a whole, including the provision of any non-audit services;
- iv. Satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and UKIB (other than in the ordinary course of business) which could adversely affect the external auditor's independence and objectivity;
- v. Agreeing with the Board a policy on the employment of former employees of UKIB's external auditor and monitoring the implementation of this policy;
- vi. Monitoring the external auditor's processes for maintaining independence, its compliance with relevant law, regulation and other ethical and professional guidance, including the guidance on the rotation of audit partner and staff;
- vii. Assessing annually the qualifications, expertise, resources and independence of the external auditor and the effectiveness of the external audit process, which shall include a report from them on their own internal quality procedures;
- viii. Seeking to ensure co-ordination of the external audit with the activities of the Internal Audit Services function; and
- ix. Evaluating the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee.

9.6.3 Meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without management being present, to discuss the external auditor's remit and any issues arising from the audit.

9.6.4 Discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team.

9.6.5 Review the findings of the audit with the external auditor. This shall include but not be limited to the following:

- i. A discussion of any major issues which arose during the audit;
 - ii. Key accounting and audit judgements;
 - iii. Levels of errors identified during the audit;
 - iv. The external auditor's view of their interactions with senior management; and
 - v. The effectiveness of the audit process.
- 9.6.6 Review any representation letter(s) requested by the external auditor before it is (they are) signed by management.
- 9.6.7 Review the management letter and management's response to the external auditor's findings and recommendations.
- 9.6.8 Review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the external auditor and the external auditor's response to questions from the Committee.
- 9.7 Whistleblowing
 - 9.7.1 Review the adequacy and security of UKIB's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.
 - 9.7.2 Ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.
- 10. Reporting responsibilities**
 - 10.1 The Chair shall report formally to the Board on the Committee's proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. Where relevant, this report shall include:
 - 10.1.1 The significant issues that it considered in relation to the financial statements and how these were addressed;
 - 10.1.2 The significant points that it considered in relation to the risks facing UKIB and the measures being taken to mitigate these, including but not limited to fraud, bribery and corruption risk;
 - 10.1.3 Its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
 - 10.1.4 Any other issues on which the Board has requested the Committee's opinion.
 - 10.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
 - 10.3 The Committee shall compile a report on its activities to be included in UKIB's Annual Report and Accounts. The report should include:
 - 10.3.1 An explanation of how the Committee has assessed the effectiveness of the risk management and external audit process;

10.3.2 The significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by Internal Audit Services and the external auditor; and

10.3.3 All other relevant information requirements set out in the Code.

10.4 In the compiling of the reports referred to above, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant but should include at least those matters that have informed the Board's assessment of whether UKIB is a going concern. The report to the Shareholder need not repeat information disclosed elsewhere in the Annual Report and Accounts but could provide cross-references to that information.

11. Other matters

The Committee shall:

- 11.1 Have access to sufficient resources in order to carry out its duties, including access to the Company Secretary and/or a member of their team for advice and assistance as required.
- 11.2 Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.
- 11.3 Give due consideration to laws and regulations, the relevant principles and provisions of the Code and any other applicable rules or guidelines, as appropriate.
- 11.4 Be responsible for the oversight of the coordination of the external auditor and the Internal Audit Services function.
- 11.5 Oversee any investigation of activities which are within its terms of reference.
- 11.6 Work and liaise as necessary with all other Committees of the Board.
- 11.7 Arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board.

12. Authority

The Committee is authorised to:

- 12.1 Seek any information it requires from any employee of UKIB in order to perform its duties.
- 12.2 Investigate any matter within its terms of reference.
- 12.3 Obtain, at UKIB's expense, independent legal, accounting or other professional advice on any matter it believes is necessary.
- 12.4 Call any employee to be questioned at a meeting of the Committee as and when required.
- 12.5 Have the right to publish in the Annual Report and Accounts details of any issues that cannot be resolved between the Committee and the Board.