

UK Infrastructure Bank Limited

(Company Number: 06816271)

Audit and Risk Committee – Terms of Reference

**1. The UK Corporate Governance Code**

- 1.1. The UK Corporate Governance Code (“the Code”) states that: The Board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.
- 1.2. The Board should present a fair, balanced and understandable assessment of UK Infrastructure Bank’s (UKIB) financial position and prospects.
- 1.3. The Board should establish procedures to manage risk, oversee the internal risk management framework and determine the nature and extent of the principal risks UKIB is willing to take in order to achieve its long-term Strategic Objectives.

**2. Purpose and Objectives**

- 2.1. The Board Terms of Reference require it to establish the Audit and Risk Committee (the Committee).
- 2.2. The responsibilities of the Committee, in line with those of the Board, shall include:
  - a) Providing effective leadership of UKIB within a framework of prudent and effective controls which enable risk to be assessed and managed;
  - b) Ensuring the financial resources are in place for UKIB to meet its Strategic Objectives;
  - c) Ensuring the Board receives and reviews regular financial information concerning the management of UKIB and is informed in a timely manner about any concerns ~~about~~ regarding or concerning? the activities of UKIB;
  - d) Demonstrating high standards of corporate governance at all times, including by using the Committee to help the Board to address key financial and other risks;
  - e) Ensuring 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.

### **3. Membership**

- 3.1. The Committee shall comprise at least three members from the Non-Executive Directors to the Board, one of whom shall be the Shareholder Director (as defined in the UKIB Board Terms of Reference).
- 3.2. Members of the Committee shall be appointed by the Board further to the recommendation of the UKIB Remuneration and Nomination Committee and in consultation with the Committee Chair.
- 3.3. 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.
- 3.4. The chair of the Board (Board Chair) has the right to attend Committee meetings but will not be a member of the Committee. Other individuals, including the External Auditor, the Head of Internal Audit, the Chief Executive Officer (“CEO”), the Chief Financial Officer (“CFO”), the Chief Risk Officer (“CRO”), General Counsel and other representatives from risk and compliance will be invited to attend meetings of the Committee. 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 Committee Chair.
- 3.5. Appointments to the Committee shall be for a fixed term of three years, which may be extended up to two further terms of three years, subject to mutual agreement and meeting required performance standards.
- 3.6. The Committee Chair shall be a Non-Executive Director to the Board. The Shareholder shall appoint, remove or replace the Committee Chair as the appointment of Non-Executive Directors is a shareholder reserved matter. In the absence of the Committee Chair and/or a deputy appointed by the Committee Chair in advance, the remaining members present in a meeting shall elect one of themselves as deputy to chair the meeting.

### **4. Notice of meetings**

- 4.1. 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.
- 4.2. The Committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 4.3. Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the UKIB’s governance, including the Board Chair, the Shareholder Director, the CEO, the CFO, the CRO, the External Auditor and the Head of Internal Audit.

## **5. Voting Arrangements**

- 5.1. Questions arising at a meeting shall be decided by a majority vote or can refer the matter up to the Board for further consideration. In the case of an equality of votes, the Committee Chair shall have the second, casting vote.

## **6. Quorum**

- 6.1. The quorum necessary for the transaction of business shall be two members, one of whom must be the Committee Chair or a deputy nominated by the Committee Chair in advance of the meeting or selected by the members to be deputy in the meeting.
- 6.2. A Committee meeting at which quorum is present can exercise all the powers and discretions of the Non- Executive Directors.

## **7. Minutes of Meetings**

- 7.1. The Governance team provide secretariat services, the Risk team take the minutes, collectively ensuring the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.
- 7.2. Secretariat shall convene meetings of the Committee at the request of any of its members, the External Auditor, the Head of Internal Audit or the CRO if they consider it necessary.
- 7.3. Risk team shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- 7.4. Draft minutes of Committee meetings shall be circulated within three weeks to all members of the Committee. Once approved, minutes should be available to all other members of the Board unless it would be inappropriate to do so in the opinion of the Committee Chair. The minutes will be available to the Shareholder once finalised and approved by the Committee Chair subject to the caveat above.
- 7.5. Final signed copies of the Committee meeting minutes should be maintained for UKIB records.

## **8. General Matters**

The Committee shall carry out the duties detailed below for UKIB, more specifically, the Committee shall:

### **8.1. Going Concern**

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

## 8.2. Financial Reporting

- a) Monitor the integrity of the financial statements of UKIB, including its annual reports, interim management statements, and any other formal announcement 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 or the External Auditor.
- b) In particular, the Committee shall review, challenge, and approve where necessary:
  - (i) The consistency of, and any changes to, significant accounting policies both on a year-on-year basis and across UKIB, including compliance with relevant accounting standards.
  - (ii) The methods used to account for significant or unusual transactions where different approaches are possible.
  - (iii) Whether UKIB has followed the approved accounting policies and made appropriate estimates and judgments.
  - (iv) The clarity and completeness of disclosure in the UKIB's financial reports and the context in which statements are made.
  - (v) All material information presented within the financial statements, such as the Business Review and the Corporate Governance Statements relating to the audit.
- c) The Committee shall 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.
- d) Where the Committee is not satisfied with any aspect of the proposed financial reporting by UKIB, it shall report its views to the Board.
- e) The Committee shall also review and recommend to the Board its recommendation to the Accounting Officer, for the approval of UKIB's financial statements to be consolidated into the Annual Report and Accounts of the Shareholder and laid before Parliament.
- f) The Committee shall review whether UKIB's financial statements, to the extent necessary, comply with:
  - (i) Any bespoke reporting requirement from the Shareholder Framework Document or Financial Framework Document.
  - (ii) 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.

- (iii) Government Accounting Rules.
- (iv) The reporting requirements of the Public Accounts Committee.
- (v) The annual Financial Delegation and Budget Allocation.
- (vi) The financial reporting requirements of the Shareholder.

### 8.3. Narrative Reporting

The Committee should 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.

- 8.4. 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.
- 8.5. Review performance against risk appetite and monitor key trends and concentrations.
- 8.6. Review the overall market, credit, operational, regulatory, financial crime, financial soundness and strategic and business model risk exposures of UKIB with reference to the limits and metrics.
- 8.7. Consider the profile of risk and return in the context of the financial performance of UKIB.
- 8.8. Oversee and advise the Board on the current risk exposures of UKIB and future risk strategy.
- 8.9. Review and approve UKIB's policies in relation to its principal risks.
- 8.10. Consider the risk that UKIB is taking in achieving impact.
- 8.11. 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:
  - a) Propose to the Board principles and policies which support UKIB's overall risk appetite, including the Risk Management Framework.
  - b) Review the principal methodologies used in the assessment of principal risk categories.

- c) 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.

8.12. In relation to risk assessment:

- a) Keep under review UKIB's overall risk assessment processes that inform the Board's decision making, ensuring both qualitative and quantitative measures are used.
- b) Review regularly and approve the parameters used in these measures and the methodology adopted.
- c) Set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance.

8.13. Review UKIB's capability to identify and manage new risk types.

8.14. Review reports on any material breaches of risk limits and the adequacy of proposed action.

8.15. Approve the statements to be included in the Annual Report and Accounts concerning principal risks, internal controls and risk management.

8.16. Review and approve the Annual Report and Accounts from the Money Laundering Reporting Officer.

8.17. Review and approve the Compliance Charter.

8.18. Receive and review summaries of independent second line reports in relation to compliance with company policies and procedures including the oversight of potential conduct risks.

8.19. Keep under review the adequacy and effectiveness of UKIB's compliance capabilities within the risk and compliance function.

8.20. 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.

8.21. Recommend to the Board the appointment and/or removal of the CRO and consider the opinion of the CEO in such matters.

8.22. Review promptly all reports on UKIB from the CRO.

8.23. Review and monitor management's responsiveness to the findings and recommendations of the CRO.

- 8.24. Ensure the CRO shall be given the right of unfettered direct access to the Board Chair and to the Committee Chair.
- 8.25. Work and liaise as necessary with all other Board Committees.

## **9. Internal Controls**

The Committee shall:

- 9.1. 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.
- 9.2. Review and approve the statements to be included in the Annual Report and Accounts concerning internal controls.

## **10. Internal Audit**

The Committee shall:

- 10.1. Approve the appointment or termination of appointment of the Head of Internal Audit and outsourcing arrangements.
- 10.2. Review and approve the Charter of the Internal Audit function 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.
- 10.3. Ensure the Head of Internal Audit has direct access to the Board Chair and to the Committee Chair and is accountable to the Committee.
- 10.4. Review and approve the annual Internal Audit Work Plan.
- 10.5. Receive a report on the results of Internal Audit's work on a periodic basis but at least once a year.
- 10.6. Review and monitor management's responsiveness to Internal Audit findings and recommendations.
- 10.7. Meet with the Head of Internal Audit at least once a year without the presence of management.
- 10.8. Monitor and review the effectiveness of UKIB's Internal Audit function.

## **11. Whistleblowing**

The Committee shall:

- 11.1. 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.
- 11.2. Ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

## **12. External Auditors**

- 12.1. The Committee shall comply with its obligations under the Framework Document and the relevant elements of the Code in respect of the appointment of External Auditors and subject to these obligations shall:
  - a) Review the quality and effectiveness of the services provided by the incumbent auditor.
  - b) 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 compliance with relevant ethical and professional guidance.
    - (vii) Assessing annually the qualifications, expertise and resources of the External Auditor and the effectiveness of the audit process, which shall include a report from them on their own internal quality procedures.
    - (viii) Seeking to ensure co-ordination with the activities of the Internal Audit function.



- (ix) Evaluating the risks to the quality and effectiveness of the financial reporting process.
- c) 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.
- d) 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 effectiveness of the audit process.
- e) Review any representation letter(s) requested by the External Auditor before they are signed by management.
- f) Review the management letter and management's response to the External Auditor's findings and recommendations.

### **13. Reporting Responsibilities**

- 13.1. The Committee 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. This report shall include:
  - a) The significant issues that it considered in relation to the financial statements and how these were addressed.
  - b) Its assessment of the effectiveness of the External Audit process and its recommendation on the appointment or reappointment of the External Auditor.
  - c) Any other issues on which the Board has requested the Committee's opinion.
- 13.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 13.3. The Committee shall compile a report on its activities to be included in UKIB Annual Report and Accounts. The report should include an explanation of how the Committee has addressed the effectiveness of the risk management and external audit process; 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 the Auditor; and all other relevant information requirements set out in the Code.

- 13.4. In the compiling of the reports referred to in section 13.1 a) b) c) 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.

## **14. Other Matters**

The Committee shall:

- 14.1. Have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for assistance as required.
- 14.2. 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.
- 14.3. Give due consideration to laws and regulations, the provisions of the QCA guidelines and any other applicable rules, as appropriate.
- 14.4. Oversee any investigation of activities which are within its terms of reference.
- 14.5. 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.

## **15. Authority**

- 15.1. Seek any information it requires from any employee of UKIB in order to perform its duties.
- 15.2. Investigate any matter within its terms of reference.
- 15.3. Obtain, at UKIB's expense, independent legal, accounting or other professional advice on any matter it believes is necessary.
- 15.4. Call any employee to be questioned at a meeting of the Committee as and when required.
- 15.5. 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.



Approved by the Board (Date) .....

Next Review (Date) .....