



**Network Rail Limited (the “Company”)**

**Terms of Reference**

**for**

**The Audit and Risk Committee of the Board**

**Membership of the Audit and Risk Committee**

- 1 The Audit and Risk Committee (the “Committee”) shall comprise at least three members. Members of the Committee shall be appointed by the Board on the recommendations of the Nominations and Corporate Governance Committee in consultation with the Chair of the Committee.
- 2 All members of the Committee shall be independent non-executive directors, at least one of whom shall have recent and relevant financial experience. The Chair of the Board shall not be a member of the Committee. The members of the Committee shall be named in the Company’s annual report.
- 3 The Board shall appoint one of the members of the Committee to be its Chair and shall determine the period for which the Chair and other members of the Committee shall hold office. In the absence of the committee Chair, the remaining members shall elect one of themselves to chair the meeting.
- 4 The Company Secretary of the Company, or their nominee, shall act as secretary of the Committee (the “Secretary”).

**Proceedings of the Committee**

- 5 The Committee shall meet formally at least four times a year (where appropriate such meetings should be timed by reference to the Company’s financial reporting cycle) and otherwise on such occasions as the Board

may request or as may be required in consultation between the Group finance Director and the Chair of the Committee. In addition, a meeting of the Committee may be convened by any of its members, the Secretary or the Company's internal and external auditors if they consider it necessary.

6 The quorum for transaction of business by the Committee shall be any two members.

7 The Group Finance Director, the Company's external auditors, the Secretary, the Head of Internal Audit and the Head of Risk and Insurance will normally attend meetings of the Committee by invitation of the Committee. The Chair of the Company, the Chief Executive and other board members shall also attend if invited by the Committee.

8 The Committee may at its discretion appoint at any time a person to act as an advisor to provide such independent advice and support as the Committee may consider appropriate in respect of any of its responsibilities under or pursuant to these Terms of Reference.

9 At least once a year a representative of the Company's external auditors will meet with the Committee without any executive directors being present.

10 The Committee shall operate by majority decision. In the case of an equality of votes, the Chair of the Committee shall be entitled to an additional or casting vote in addition to any other vote he may have.

11 Notice of each meeting of the Committee (confirming the venue, date and time, and an agenda of business to be discussed) shall, unless agreed by all concerned, be sent to each member, all other non-executive directors and any other invitees not less than three working days before the meeting.

12 The Secretary shall maintain a written record of the proceedings and decisions of the Committee which shall be circulated to all members of the Board.

13 The Chair of the Committee shall:

- a) report the results of the Committee meeting to the next appropriate meeting of the Board (to the extent deemed appropriate by the Chair of the Committee);
- b) attend the Annual General Meeting and any other meeting of the membership of the Company to answer questions through the Chair of the Board on the Committee's activities and responsibilities.

- 14 The Chair of the Committee, or at least one other member of the Committee, shall attend the board meeting of the Company at which the Company's accounts are approved.
- 15 The Committee shall conduct an annual review of the work of, and the members of, the Committee and these terms of reference and make recommendations to the Board.
- 16 The Committee's duties and activities during the preceding financial year, and the significant activities contained in the forward agenda, shall be disclosed in the Company's annual financial statements. This disclosure shall include an explanation of the assessment of the effectiveness of the external audit process and a statement on non-audit services and maintaining independence and objectiveness.

### **Authority of the Committee**

- 17 The Committee is authorised by the Board of the Company to:
  - a) at the Company's expense directly employ the services of such external legal or other professional advisors, or otherwise commission such reports or surveys as it deems necessary to fulfil its responsibilities;
  - b) investigate any activity within its terms of reference;
  - c) invite such persons to its meetings as the Committee considers appropriate;
  - d) seek such information from the Company and its directors and employees (all employees being directed to co-operate with any such request by the Committee), as it deems necessary in order to fulfil its role
  - e) publish in the Company's annual report details of the work during the relevant year of the Committee and also any issues that cannot be resolved between the Committee and the Board.

### **Role of the Committee**

- 18 The role of the Committee is to
  - 18.1 Review and discuss with management of Network Rail and the Company's internal and external auditors the integrity of the financial

statements of the Network Rail parent company, major subsidiary undertakings and the group as a whole (“the Group”).

18.2 Review and, where appropriate, make recommendations to the Board on internal controls including risk management (other than such risk as is within the terms of reference of any other Board committee), regulation, compliance and internal audit and to review the external audit process.

## **Duties of the Committee**

19 The Committee shall carry out the duties below for the Group, as appropriate.

### **19.1 Financial Reporting**

19.1.1 The Committee shall review the integrity of the Group’s financial statements included in its results announcements, Annual Report and Accounts and other formal documents containing financial statements.

19.1.2 The Committee shall review and challenge where necessary significant financial reporting issues and judgements which they contain, paying particular attention to:-

- a) significant accounting policies and practices, and any changes to these and any significant estimates and judgements;
- b) where the accounting treatment is open to different approaches, considering whether the Company has adopted appropriate accounting policies and where necessary, made appropriate estimates and judgements, taking into account the Company’s external auditor’s views;
- c) the consistency of accounting policies both on a year-to-year basis and across the Company; the methods used to account for significant or unusual transactions; applicable accounting standards followed or reconciled in the financial statements; and any other significant financial reporting judgements made by management

- d) the clarity and completeness of disclosures in the financial statements and the context in which statements are made;
- e) significant adjustments resulting from the audit;
- f) the going concern assumption;
- g) all material information presented with the financial statements including the business review/operating and financial review (if any), the corporate governance statement relating to audit and risk management

## 19.2 Internal Controls and Compliance

The Committee shall

- a) Keep under review the adequacy and effectiveness of the Group's financial reporting and internal control procedures (including financial, operations and compliance controls and risk management) prior to endorsement of such procedures by the Board
- b) Review and approve the statements to be included in the annual report on its systems of internal control and risk management
- c) Review the Group's compliance with statutory and regulatory requirements (and stock exchange requirements where these are appropriate)
- d) Consider the adequacy of contingency plans for processing financial information in the event of a major computer or other system breakdown
- e) Review the Company's procedures for detecting fraud
- f) Review the adequacy and security of the company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action
- g) Review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

## 19.3 Risk Management

### 19.3.1 The Committee shall

- a) Recognising that determination of the level of risk appetite acceptable to the Company is the responsibility of the Board of the Company, consider (for the purpose of making recommendation to the Board) proposals for the level of the Company's risk appetite
- b) Review, on behalf of the Board, the Company's risk profile.
- c) Oversee and advise the Board on the current risk exposures of the Company and future risk strategy against the Company's risk appetite
- d) Consider a report from management each year on the major risks that may materialise in the future, particularly as a consequence of adverse changes to the economic, social, regulatory, political or technology environment, or as an unintended consequence of new activities by the Company.
- e) In relation to risk assessment –
  - i) review the Company's overall risk assessment processes that inform the Board's decision making
  - ii) review and approve the parameters used in these risk assessment measures and the methodology adopted
  - iii) review the processes for monitoring of large exposures and certain risk types of critical importance
- f) Review the Company's capability to identify and manage new risk types
- g) Consider and approve the remit of the risk management function and assure itself that:
  - a. That function has adequate resources and appropriate access to information to enable it to perform its function effectively.
  - b. That function has adequate independence from management or other restrictions
- h) Review and monitor management's responsiveness to the findings and recommendations of the Head of Risk and Insurance.

- i) Review proposals for testing of the risk mitigations and controls that underpin the Company's assessment of residual risk compared to risk appetite
- j) Before a decision to proceed is taken by the Board relating to proposed significant strategic transactions, whilst responsibility lies with the Board in approving such transactions, provide views to the Board on particular risk aspects and implications for the risk appetite and tolerance of the Company of that transaction

19.3.2 Annually Network Rail's Chief Executive shall report to the Committee the effectiveness of the Company's risk management process, the top risks facing the Company as a whole and proposals for the Company's future risk appetite.

19.3.3 Each key functional Executive Director will attend at least one meeting per year to discuss the key risks in their part of the business and the actions they are taking to address them.

19.3.4 Any other committee of the Board having oversight and/or assurance responsibilities within its terms of reference for specific risk areas ("Specific Risks") shall report bi-annually to the Committee in relation to those Specific Risks on the effectiveness of the Company's risk management process, the top risks facing the Company as a whole and proposals for the Company's future risk appetite

#### 19.4 **Internal Audit Function**

The Committee shall

- a) monitor and review the effectiveness of the Company's internal audit function in the Company's overall risk management system
- b) consider the appointment or dismissal of the Head of Internal Audit
- c) review the internal audit programme and ensure that internal audit function is adequately resourced and has appropriate standing in the Company. The Committee shall also assure itself that the function has adequate independence from management

- d) review management's and the internal audit reports on the effectiveness of systems for internal financial control, financial reporting and risk management
- e) consider the major findings of internal investigations and management's responsiveness to the same
- f) meet the Head of Internal Audit at least once a year, without management being present, to discuss the remit and any issues arising from the internal audits carried out.
- g) Ensure the Head of Internal Audit has direct access to the Chair of the Committee and to the Chair of the Board.

## 19.5 External Audit

The Committee shall:

- a) consider and make appropriate recommendations to the Board to be put to the Members for approval at the AGM on the appointment and any question of the resignation or dismissal of the external auditors.
- b) oversee the process for selecting the external auditors and if an external auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- c) assess independence and objectivity of the Company's external auditor, including that there are no relationships between the auditor and the Company that would have an adverse effect on independence and objectivity; assuring itself that the rotation of audit partners is in line with relevant ethical and professional guidance; recommend, and monitor the application of, a policy on provision of non-audit services by the Company's external auditors;
- d) ensure that at least once every ten years, the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and to oversee the selection process resulting from such tender action.
- e) assess the qualification, expertise and resources of the Company's external auditors and the effectiveness of the audit process, which shall include a review of the auditors' quality control procedures and

- steps taken by the auditor to respond to changes in regulatory and other requirements;
- f) recommend the audit fee to the Board and pre-approve the use of and the fees in respect of non-audit services provided by the Company's external auditors;
  - g) discuss with the Company's external auditors before the audit commences the nature and scope of the audit; review whether the level of fee payable is appropriate for the provision of those services; and, where more than one audit firm is involved, monitor co-ordination between them;
  - h) approve the Company's external auditors' terms of engagement and review the management letter and management's response;
  - i) meet regularly with the auditor (including both before and after the audit), in the absence of management when appropriate, to discuss auditor remit issues, problems or reservations arising.
  - j) to recommend to the board such additional audit work as the Committee considers appropriate and necessary.

## **19.6 Complaints Procedures**

19.6.1 The Committee shall keep under review procedures for the receipt, retention, and treatment of complaints received by the Company relating to accounting, internal accounting controls, or auditing matters of the Company.

19.6.2 The Committee shall also keep under review the Company's arrangements for its employees to raise concerns, in confidence, about possible improprieties in financial reporting and other matters and assure itself that these arrangements allow proportionate and independent investigation and appropriate follow-up action on such matters.

## **19.7 General Reporting Responsibilities**

19.7.1 The Committee shall make whatever recommendations to the Board it deems appropriate in order that a report to stakeholders on internal

controls and such other matters as may be required by law, regulation and the requirements of good governance can be included in the Company's Annual Report and Accounts.

19.7.2 The Committee shall review results announcements and interim management statements and make recommendations to the Board prior to release as appropriate.

19.7.3 The Committee shall also review generally with management the types of information to be disclosed.

19.7.4 The Committee shall review formal reports to Members on its activities containing such matters as may be required by law, regulation and best practice is included in the Annual Report and Accounts.

#### **19.8. Other matters**

The Committee shall:

- a) Assist the Board in overseeing compliance with all legal and regulatory requirements and shall give due consideration to the requirements of the UK Corporate Governance Code and other applicable regulatory reporting requirements to the extent required and/or deemed appropriate.
- b) Consider any other matter specifically referred to the Committee by the full board
- c) Oversee any investigation of activities which are within its terms of reference and be responsible for resolving any disputes that may arise between the external auditors, internal auditors and the Company.

Adopted by the Board of Network Rail Limited on 22 September 2015