

Audit & Risk Committee Terms of Reference

Spring 2023

1. Executive Summary

The Audit & Risk Committee (ARC) has been established as a committee of the NPL Board to support and advise the NPL Board in discharging its responsibilities. The Committee has been established in accordance with the requirements of the NPL & BEIS Framework Agreement and the guidance on best governance practices from the UK Corporate Governance Code (2018).

The Committee's terms of reference may be amended at any time by the NPL Board.

2. Authority

The Committee is authorised by the NPL Board to:

- investigate any activity within its terms of reference or, from time to time, investigate activity outside its terms of reference if required to do so by the NPL Board;
- seek any information that it requires from any employee of NPL; and
- seek information from or request meetings with appropriate stakeholders.

All employees are directed to cooperate with any request from the Committee. The Committee shall not have any executive responsibilities.

3. Responsibilities

Audit and Reporting

With respect to audit oversight and external financial reporting matters, the duties of the Committee are:

- To scrutinise prior to approval by the NPL Board the draft Annual Report and Financial Statements, including the Governance Statement, and, in particular, review whether they provide a true and fair view, meet legal requirements, comply with the relevant SORP and relevant Cabinet Office

and Treasury guidance, take account of best practice and the Government Financial Reporting Manual (FReM) and whether the information provided is adequate, consistent and easy to understand; and to recommend for approval by the NPL Board accounting policies and practices and any significant changes to accounting policies and practices;

- To oversee the process for selecting the external auditor and make recommendations to the NPL Board about the appointment, re-appointment, remuneration and removal of the external auditor; and to review performance against the external auditor's terms of engagement annually;
- To ensure that the external auditor's independence or objectivity is not impaired, for example through the provision of non-audit services;
- To discuss with the external auditor the nature and scope of the annual audit, to review the annual audit plan, and review performance against the external auditor's terms of engagement;
- To meet and to discuss with the external auditor any matters arising from the audit and management's response;
- To oversee and ensure that the organisation has fit for purpose internal audit service provision, including the process for selection of the internal auditor and recommendation to the NPL Board, the appointment, re-appointment, remuneration and removal of the internal auditor, and to review performance against the internal auditor's terms of engagement; and
- If relevant, to receive and to consider regular reports from the internal auditor and to consider management's response.

Risk management and compliance

With respect to risk management and compliance, the duties of the Committee are:

- To oversee and advise the NPL Board on the current risk exposure of NPL and future risk strategy;
- To review NPL's capability to identify and manage new risk types;
- To monitor and review compliance with the legal, regulatory and shareholder framework; and
- To keep under review the adequacy and effectiveness of NPL's internal financial controls, internal control and risk management systems, including the arrangements for raising concerns in confidence about wrongdoing; procedures for detecting fraud; and systems and controls for the prevention of bribery and anti-money laundering.

4. Relationship with other Committees in the NPL governance structure

All NPL Board Committees and sub-committees have a responsibility to ensure that all decisions and outcomes are shared appropriately.

The Committee Chair shall present, in the NPL Board meeting, a verbal report of any Committee meeting since the last Board meeting, highlighting any areas of interest or concern.

Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in NPL's governance, including the NPL Board Chair, the CEO, the Finance Director, and the external audit partner.

5. Membership and Attendance

Appointments to the Committee should be made by the Board on the recommendation of the Nomination Committee, in consultation with the Committee Chair.

The Committee Chair shall be appointed by the NPL Board.

The Committee shall consist of not less than three members.

Members of the Committee shall be Non-Executive Directors, at least one of whom shall have recent and relevant financial experience and the Committee, as a whole, shall have competence relevant to the sector. The Chair of the NPL Board shall not be a member of the Committee.

Executive directors of NPL and BEIS shareholder representatives will be attendees of the Committee.

The Company Secretary shall attend the Committee meetings and shall act as the secretary to the Committee.

The members of the Committee shall be:

- Committee Chair
- 2 x Independent Non-Executive Directors
- The BEIS Shareholder Director

Executives of NPL required to attend the Committee meeting:

- Chief Executive Officer
- Finance Director

Also invited to attend the Committee meeting:

- BEIS Finance representative
- Head of Assurance

Membership should be reviewed regularly and may be refreshed periodically or as part of the annual effectiveness review.

Representatives from across NPL may be invited to present to the Committee on all of the areas highlighted above.

For development purposes, the Committee may invite observers to attend meetings.

6. Working Practices

Secretariat

The Secretariat function for this Committee will be carried out by the Company Secretary.

The Secretariat will lead on meeting logistics; paper commissioning and circulation; minuting the meetings; and maintaining the actions log.

Meetings

Meetings shall be held four times a year, to coincide with quarterly reporting dates in NPL's financial reporting cycle. The meetings shall be structured to occur in advance of the full NPL Board meeting, typically one to two weeks, so that the outcome of the ARC can inform the full NPL Board whilst still being held in close proximity so that Committee updates to the full Board are current in nature.

Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or at the request of the external or internal auditors if they consider it necessary.

Unless otherwise agreed with the Chair, notice of each Committee meeting confirming the venue, time and date, together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the Committee, and any other person required to attend, no later than five working days before the meeting.

Agenda and Forward Planning

The Agenda for each Committee meeting will be confirmed by the Chair, in partnership with the Secretariat, ensuring that actions from previous meetings and new matters arising are scheduled as appropriate.

Any items or actions that need to return to the Committee or are requested to attend at a specific time should be noted in a forward look for future items.

Papers and Minutes

Papers should be submitted to the Secretariat 6 working days (8 calendar days) prior to the meeting.

The Secretariat will ensure that those responsible for preparing papers for the next meeting are aware of the paper deadline. Papers that miss the deadline may be deferred to the following meeting. This will be at the discretion of the Chair and Secretariat.

Minutes will be written and shared with the Chair within 10 working days following the meeting. The minutes will then be tabled for approval by the Committee at its next meeting.

Quorum & Decision Making

The quorum for a meeting of the Committee is 2 members.

All Committee members should declare any personal or business interest which may, or may be perceived to, influence their judgement. A declaration of interest should be made at any Committee meeting if it relates specifically to a particular issue under consideration, for recording in the minutes (whether or not the member withdraws from the meeting, or part of it). Members should not participate in the discussion or determination of matters in which they have an interest (and should not count towards the quorum in respect of such matters) and should normally withdraw from the meeting, if their interest is direct and pecuniary.

The Chair should aim to reach a consensus view across the members of the Committee. However, where there is dissent or disagreement, this should be minuted and a majority decision taken.

In exceptional circumstances, a steer or guidance may be needed from the Committee outside of the usual meeting cycle. The Secretariat should circulate details of the guidance required to all Committee members and regular attendees (including any reference material or a paper) and ask all to respond. A clear and reasonable deadline will be given for responding.

Effectiveness Reviews

In accordance with best practice, the Chair, together with the Secretariat, will organise for an annual review of the effectiveness of the Committee in order to strive for continuous improvement and development. The findings of the review should be discussed as a formal agenda item with the Committee.