



## **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.
2. All members of the Committee shall be independent non-executive directors, at least one of whom shall have recent and relevant financial experience and with competence in accounting and/or auditing.
3. One member of the Committee shall have recent and relevant operational experience of the railway. This non-executive director shall also be appointed to the Safety Health and Environmental Compliance Committee.
4. The Committee shall comprise directors who, as a whole, have competence relevant to the rail sector. 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 and Accounts.
5. The Board shall appoint one of the members of the Committee to be its Chair. In the absence of the committee Chair, the remaining members of the Committee shall elect one of themselves to chair the meeting.
6. Where special meetings of the ARC are convened to focus on the Great British Railways Transition Team (GBR TT) the ARC membership will be adjusted to appropriately support discussions. This may include members of the GBR TT Board.

#### **Role of the Committee**

7. The Committee is constituted by the Board to assist the Board with meeting its responsibilities for the integrity of the financial reporting of the Company, major subsidiary undertakings and the group as a whole (the “Group”).
8. The Committee shall review the effectiveness of the internal control and risk management systems and assess the effectiveness of internal and external auditors.
9. The Committee shall assist management in discharging their responsibilities and the responsibilities of the Accounting Officer.
10. Where there is a perceived overlap of responsibilities between the Committee and the Safety, Health and Environmental Compliance Committee, the respective

chairman will have discretion to agree the most appropriate committee to fulfil any obligations.

11. The Committee will convene special meetings to provide oversight and assurance of GBR TT.

### **Proceedings of the Committee**

12. The Committee shall meet formally at least four times a year and otherwise on such occasions as the Board may request or as may be required.
13. A meeting of the Committee may be convened by any of its members, the Secretary or the Company's internal and/or external auditor if they consider it necessary.
14. The quorum for transaction of business by the Committee shall be any two members.
15. Attendees at meetings of the Committee shall include:
  - a) the Chief Financial Officer, the Company's external auditor, the Company Secretary, the Director of Risk & Internal Audit and the Head of Group Risk will normally attend meetings by invitation of the Committee; and
  - b) the Chair of the Company, the Chief Executive and other Board, Executive Leadership Team or GBR TT members shall also attend if requested by the Committee.
16. 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 these terms of reference.
17. At least once a year a representative of the Company's external auditor will meet with the Committee without any executive directors being present.
18. 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 they may have.
19. 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 of the Committee and any other invitees not less than three working days before the meeting.
20. The Company Secretary, or their nominee shall act as secretary of the Committee (the "Secretary")
21. The Secretary shall maintain a written record of the proceedings and decisions of the Committee which shall be circulated to all members of the Committee.
22. The Chair of the Committee shall report to the Board on its proceedings after each meeting, on all matters within its duties and responsibilities.
23. 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.
24. The Committee shall conduct periodic reviews of its own performance and, at least annually, review its terms of reference and recommend any changes it

considers necessary to the Board. The Committee shall also disclose in the Annual Report and Accounts how the Committee's performance evaluation has been conducted.

25. 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 Report and Accounts. This disclosure shall include an explanation of the:
  - a) significant issues considered by the Committee in the year and how these were addressed;
  - b) the effectiveness of the external audit process; and
  - c) the non-audit services received and how independence and objectiveness has been maintained.

### **Duties of the Committee**

The Committee is responsible for:

#### **A. Financial Reporting**

26. The Committee shall monitor and 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.
27. 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; and
  - g) all material information presented with the financial statements including the Strategic Report, the corporate governance statement relating to audit and risk management.
28. Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

#### **B. Narrative reporting**

29. Where requested by the Board, the Committee should review the content of the Annual Report and Accounts and advise the Board on whether:
- a) taken as a whole, it is fair, balanced and understandable;
  - b) it provides the information necessary for the Company's sole member and its stakeholders to assess the Company's performance, business model and strategy; and
  - c) it informs the Board's statement in the Annual Report on these matters that is required under the UK Corporate Governance Code.

### **C. Internal Controls and Compliance**

30. The Committee shall:

- a) keep under review the adequacy and effectiveness of the Group's financial reporting and internal control procedures prior to endorsement of such procedures by the Board;
- b) review and approve the statements to be included in the Annual Report and Accounts on its systems of internal control and risk management; including the assessment of principal risks and emerging risks and the viability statement;
- c) consider the findings of major investigations of internal control over financial reporting and management's response to these;
- d) review the Group's compliance with statutory and regulatory requirements (and stock exchange requirements where these are appropriate);
- e) consider the adequacy of contingency plans for processing financial information in the event of a major computer or other system breakdown;
- f) review the Company's procedures for detecting fraud, malpractice and theft;
- g) 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; and
- h) review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

### **D. Risk Management**

31. The Committee shall

- a) consider proposals for the Company's risk appetite, exposure, tolerance and future risk strategy, and make a recommendation to the Board for approval;
- b) consider the Company's ability to reduce the likelihood of principal risks emerging. The Committee shall consider a report from management every two years on the major risks that may materialise in the future, due to adverse changes to the economic, social, regulatory, political or technology environment, or as an unintended consequence of new activities;
- c) In relation to risk assessment:
  - i. review the adequacy and effectiveness of the Company's overall risk assessment processes and procedures to manage risk;

- ii. review and approve the metrics used in these risk assessment measures, and the methodology adopted;
    - iii. review the processes for monitoring the risk exposure of the Company, including large exposures and principal risks to the Company's business model or future performance;
  - d) review the Company's capability to identify and manage new risk types;
  - e) consider and propose for approval by the Board, the statement of viability and any underlying assumptions supporting the statement;
  - f) consider and approve the remit of the risk management function and assure itself that:
    - i. the function has adequate resources and appropriate access to information to enable it to perform its function effectively;
    - ii. the function has adequate independence from management or other restrictions;
  - g) review and monitor management's responsiveness to the findings and recommendations of the Head of Group Risk and the Director of Risk and Internal Audit;
  - h) review proposals for stress testing of the risk mitigations and controls that underpin the Company's assessment of residual risk compared to risk appetite;
32. The responsibility for approval of proposed significant strategic transactions lies with the Board, however, the Committee shall provide its views to the Board on particular risk aspects and implications for the risk appetite and tolerance of the Company of that transaction.

#### **E. Internal Audit Function**

33. The Committee shall
- a) review and approve the role and mandate of the Company's internal audit function, monitor and annually review the effectiveness of the Company's internal audit function in the Company's overall risk management system and consider whether an independent, third party review of process is appropriate;
  - b) consider the appointment or dismissal of the Director of Risk & Internal Audit;
  - c) review and approve the internal audit plan and ensure that it is aligned to the key risks of the company and the 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 and annually approve the internal audit charter and ensure that it is aligned to the current needs of the Company;
  - e) review management's and the internal audit reports on the effectiveness of systems for internal financial control, financial reporting and risk management;
  - f) consider the major findings of internal investigations and management's responsiveness to the same;
  - g) review the content of the annual Governance Statement in the Annual Report and Accounts and provide its views to the Board;
  - h) carry out an annual assessment of the internal audit function:

- i. meet the Director of Risk & 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;
  - ii. review and assess the annual audit work plan;
  - iii. review a report on the results of the internal auditor's work; and
  - iv. review the actions taken by management to implement the recommendations to support the effective working of the internal audit function;
- i) ensure the Director of Risk & Internal Audit has direct access to the Chair of the Committee and to the Chair of the Board.

## **F. External Audit**

34. The Company's member requires that the Comptroller & Auditor General, supported by the National Audit Office (collectively the 'Independent Auditor') be appointed as the group external auditor, the Committee shall:
- a) discuss with the Company's Independent Auditor the nature and scope of the audit and review whether the level of fee payable is appropriate for the provision of those services, before the audit commences
  - b) approve the Company's Independent Auditor's terms of engagement and review the management letter and management's response;
  - c) review the findings of the audit with the Independent Auditor and consider how weaknesses and the risks to the audit quality were addressed;
  - d) review and consider the potential implications for the Company of the wider work carried out by the Independent Auditor, for example, Value for Money reports and good practice findings; if an Independent Auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required;
  - e) assess annually, and report to the Board on
    - i. the independence and objectivity of the Company's Independent Auditor, including that there are no relationships between the auditor and the Company that would have an adverse effect on independence and objectivity;
    - ii. assuring itself that the rotation of audit partners is in line with relevant ethical and professional guidance;
    - iii. recommend, and monitor the application of, a policy on provision of non-audit services by the Independent Auditor;
  - f) assess annually, and report to the Board on:
    - i. the qualification, expertise and resources of the Company's Independent Auditor and the effectiveness of the audit process, which shall include a review of the auditor's quality control procedures; and
    - ii. the robustness and perceptiveness of the auditors in handling key judgements and steps taken by the auditor to respond to changes in regulatory and other requirements;
  - g) approve the audit fees;

- h) review the Company's policy on the provision of non-audit services by the Independent auditor and the use of and the fees in respect of non-audit services provided by the Company's external auditors;
  - i) meet regularly with the Independent Auditor in the absence of management when appropriate, to discuss audit remit issues, problems or reservations arising;
  - j) recommend to the Board such additional audit work as the Committee considers appropriate and necessary.
35. An external audit firm other than the Independent Auditor can be appointed to carry out independent audits of subsidiary companies within the Group, when this is the case:
- a) it is acknowledged that management will notify the Committee of any changes to the external auditor for any subsidiaries;
  - b) the Committee will assess annually the independence and objectivity of all external independent auditors appointed or proposed for appointment to subsidiaries. The Committee will consider, the level of their fee and the provision by them of any non-audit services; noting that the provision of non-audit services that could have an adverse effect on the independence and objectivity of the external independent auditor of any such subsidiary are not permitted.

#### **G. Complaints Procedures**

- 36. 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.
- 37. The Committee shall also keep under review the Company's arrangements for its employees to raise concerns, as outlined under 28g.

#### **H. Cyber security**

- 38. The Committee shall provide assurance to the Board that the Company is properly managing its cyber security risk, including having in place appropriate risk mitigation strategies.
- 39. The Committee shall review the Company's cyber resilience at least annually, as part of the financial year end assurance process. It also shall discuss any issues that should be included in the Committee's recommendations for the Governance Statement.

#### **General Reporting Responsibilities**

- 40. The Committee shall assist the Board in overseeing compliance with all legal and regulatory requirements and it shall give due consideration to the requirements of the UK Corporate Governance Code and other applicable regulatory reporting requirements.
- 41. The Committee shall review the Company's interim and full year financial statements and shall make a recommendation to the Board. A sub-committee of the Board shall be constituted to review the content of the financial results

- announcements, and make recommendations to the Board, prior to publication of a RNS announcement on the London Stock Exchange, as appropriate.
42. The Committee shall review with management the types of information to be disclosed.
  43. The Committee shall review formal reports to the Company's sole Member on its activities containing such matters as may be required by law, regulation and best practice to be included in the Annual Report and Accounts.
  44. The Committee shall consider any matter specifically referred to it, by the Board.
  45. Oversee any investigation of activities which are within its terms of reference and be responsible for resolving any disputes that may arise between the Independent auditor, internal auditor and the Company.

#### **Authority of the Committee**

46. The Committee is authorised by the Board of the Company to:
  - a) investigate any activity within its remit, seek any information from the Company and its directors and/or employees which is necessary to satisfactorily discharge its duties, and make recommendations to the Board where action is needed;
  - b) 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, at the Company's expense;
  - c) invite such persons to its meetings as the Committee considers appropriate; and
  - d) publish in the Company's Annual Report and Accounts details of the work undertaken by the Committee during the year, and to report on any issues that cannot be resolved between the Committee and the Board.

#### **Other matters**

47. The Committee shall:
  - a) have access to sufficient resources to carry out its duties, including access to the company secretariat for advice and assistance as required; and
  - b) 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.

Adopted by the Board of Network Rail Limited on 1 July 2021,  
Revised version agreed at the Board meeting on 22 September 2022.