

NPL Audit & Risk Committee

Terms of Reference

1. Constitution

- 1.1. The Audit & Risk Committee is constituted as a Committee of the National Physical Laboratory Management Ltd (NPL ML) Board.
- 1.2. The Committee's terms of reference may be amended at any time by the Board.
- 1.3. The Committee may from time to time investigate, discuss or review matters outside its terms of reference if required to do so by the Board.
- 1.4. The Audit & Risk Committee should not have any executive responsibilities or be charged with making or endorsing any decision.

2. Appointment and membership

- 2.1. The Audit & Risk Committee (the "Committee") is appointed by the NPLML Board.
- 2.2. The Chair of the Committee shall be appointed by the NPLML Board.
- 2.3. The Committee shall be appointed by the Board from amongst its members and shall consist of not less than three members.
- 2.4. Members of the Committee shall be Non-Executive Directors, at least one of whom shall have recent and relevant financial experience. Executive directors of NPLML will be attendees of the Committee.
- 2.5. A member of NPL's finance section shall attend the Committee meetings and shall act as the secretary to the Committee.
- 2.6. The members of the Committee after the April 2016 Board Meeting shall be:
 - Audit Chair
 - 2 x Independent Non-Executive Director
 - The Shareholder Director
- 2.7. Executives of NPL required to attend the Committee meeting:
 - Finance Director
 - Chief Executive Officer
- 2.8. Also invited to attend the Committee meeting:
 - BEIS Finance representative
 - Head of Corporate Assurance (on occasion)

3. Frequency of meetings

- 3.1. 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 Board meeting, typically one to two weeks, so

that the outcome of the Audit & Risk Committee can inform the full Board whilst still being held in close proximity so that Committee updates to the full Board are current in nature.

4. Notice of meetings

- 4.1. 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.
- 4.2. Unless otherwise agreed, notice of each Committee 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.

5. Minutes of meetings

- 5.1. The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- 5.2. The minutes of Committee meetings shall normally be confirmed and approved at the following Committee meeting.
- 5.3. The Chair of the Committee shall present in the Board meeting a verbal report of any Committee meeting since the last Board meeting, highlighting any areas of interest or concern.

6. Duties

6.1. Financial oversight

With respect to financial oversight, the duties of the Committee are:

- To consider and advise the Board about the financial implications and financial operational risks arising from decisions of the Board, in particular those relating to policy and to strategy;
- To scrutinise and evaluate, prior to approval by the Board, a draft annual budget, in particular reviewing its compatibility with organisational strategic, business and annual plans; and
- To receive and scrutinise quarterly management accounts, performance against budget, and such financial data as the Committee think appropriate.

6.2. 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 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 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 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 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.

6.3. Risk management and compliance

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

- To oversee and advise the Board on the current risk exposure of the Company and future risk strategy;
- To review the Company'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 the Company's internal financial controls and internal control and risk management systems.