

## **NUCLEAR LIABILITIES FUND LIMITED**

### **AUDIT COMMITTEE TERMS OF REFERENCE**

The audit committee is a committee of the Nuclear Liabilities Fund Limited (the 'Fund' or 'NLF') from which it derives its authority and to which it reports after each meeting. The authority of the committee is always subject to the powers and duties of the board of the Fund (the 'Board'), as set out in the Articles of Association of the Fund. The scope of the committee is set out below in section 7.

#### **1. Membership**

- 1.1. The committee shall comprise at least three members of the Board. Membership of the committee, including the role of chair, shall be determined by the Board on the recommendation of the Remuneration and Nomination Committee in consultation with the chair of the committee.
- 1.2. The chair of the Board shall not be a member of the committee.
- 1.3. At least one member of the committee shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies.
- 1.4. The external auditor and any party to which the finance function has been contracted will be invited to attend meetings of the committee on a regular basis and other non-members may be invited as and when appropriate.

#### **2. Secretary**

The company secretary, or his or her nominee, shall act as the secretary of the committee and will ensure that the committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

#### **3. Quorum**

The quorum necessary for the transaction of business shall be two members.

#### **4. Frequency of meetings**

- 4.1. The committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 4.2. Outside of the formal meeting programme, the committee chair will maintain a dialogue with key individuals involved in the Fund's governance, including the Fund's auditors.

#### **5. Notice of meetings**

- 5.1. Meetings of the committee shall be convened by the secretary of the committee at the request of any of its members or at the request of the external audit lead partner or senior partner of any third party to which the finance function has been delegated.

- 5.2. Meetings may be held in person, by video conference, telephone or electronic network.
- 5.3. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be made available electronically to each member of the committee and any other person required to attend, no later than five days before the date of the meeting.

## **6. Minutes of meetings**

- 6.1. The secretary shall minute the proceedings and recommendations of all meetings of the committee. The minutes, once approved, will be circulated to all other members of the Board, unless it would be inappropriate to do so.
- 6.2. Final signed copies of the minutes of the meetings of the committee should be maintained for the company's records.

## **7. Duties**

### **7.1. Financial reporting**

- 7.1.1. The committee shall monitor the integrity of the financial statements of the Fund, including its annual reports, interim management accounts, and any other formal announcement relating to its financial performance, reviewing and reporting or making recommendations to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the external auditor.
- 7.1.2. In particular, the committee shall review and challenge where necessary:
  - (a) the application of significant accounting policies on a year on year basis, including compliance with relevant accounting standards;
  - (b) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (c) whether the Fund has followed appropriate accounting policies and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - (d) the clarity and completeness of disclosure in the Fund's financial reports and the context in which statements are made;
  - (e) all material information presented with the financial statements, including the strategic report and corporate governance statements relating to audit and risk management.
- 7.1.3. The committee shall review and recommend to the board for approval the company's financial statements to be included in the Annual Report and Accounts.
- 7.1.4. The committee shall review whether the Fund's financial statements, to the extent necessary, comply with any bespoke reporting requirements from the Trust Deed and / or the Nuclear Liabilities Funding Agreement;
- 7.1.5. The Committee shall oversee any submissions for the Whole of Government Accounts, made on the Fund's behalf by the external auditors.

### **7.2. Narrative reporting**

The committee shall 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 shareholders to assess the Fund's performance, business model and strategy and whether it informs the Board's

statement in the annual report on these matters that is required under the UK Corporate Governance Code (Principle N).

### 7.3. Internal controls

The committee shall:

- (a) keep under review the adequacy and effectiveness of the Fund'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;
- (b) receive reports from management and advisers where necessary regarding the operation of the internal risk management process and internal controls; and
- (c) review and recommend for approval by the Board the statements to be included in the annual report regarding internal controls.

### 7.4. Risk management

The Fund's approach to risk management is set out in a paper 'NLF Approach to Risk Management', as reviewed and agreed by the Board from time to time. The committee is responsible for oversight of the governance and operational risk register and this will be a standing agenda item for committee meetings. The committee will also consider all of the risk registers for the Fund on an annual basis, considering whether the approach and process for selecting risks is working satisfactorily. The scope for this annual review is set out in NLF Approach to Risk Management paper and the committee shall present any findings following their review to the subsequent Board meeting.

### 7.5. Service Providers

7.5.1. The committee shall review the appointment or termination of the Fund's accountancy service providers and make recommendations, as appropriate to the Board.

7.5.2. The Fund is reliant on a number of external advisers and service providers. The committee is responsible for the setting of a programme for approval by the Board for review of external advisers and service providers. The committee shall oversee the implementation of this programme. Any outputs of reviews shall be reported to the Board.

### 7.6. Compliance, speaking-up and fraud

7.6.1. The committee shall:

- (a) be responsible for operational compliance and controls for the Fund, such as Fund policies and processes which shall be reviewed on a regular basis
- (b) review the adequacy and security of the Fund's arrangements for its employees, contractors and external parties to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters
- (c) ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action
- (d) review the Fund's procedures for detecting fraud
- (e) review the Fund's systems and controls for the prevention of bribery and receive any reports on non-compliance
- (f) review any reports from service providers and keep under review service providers' anti-money laundering systems and controls.

### 7.7. Engagement with stakeholders

The committee chair, with the chair of the Board, should seek engagement with shareholders on significant matters related to the committee's areas of responsibility.

7.8. Insurance

The committee shall review and approve, for recommendation to the Board, the overall levels of insurance for the Fund, including directors' and officers' liability insurance.

7.9. Funding arrangements

The committee shall oversee the arrangements for the Annual Funding Review under the Agreement between the Commissioners of Her Majesty's Treasury, the Secretary of State for Business, Energy and Industrial Strategy and NLF in respect of certain future funding arrangements dated 23 June 2020.

**8. External Auditor**

- 8.1. The committee shall carry out each of the following functions and, where action is appropriate, make recommendations for same to the Board:
- 8.1.1. the appointment, re-appointment and removal of the Fund's external auditor;
  - 8.1.2. in accordance with guidance for public bodies the expectation is that the audit services contract will be put out to tender every five years and certainly within ten years, 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, in respect of such tender, oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;
  - 8.1.3. if an auditor resigns, investigate the issues leading to this and decide whether any action is required; and
  - 8.1.4. review the auditor's total remuneration and ensure that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - 8.1.5. approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 8.1.6. oversee the annual assessment of their independence and objectivity taking into account relevant law, regulation, applicable ethical standards and other professional requirements, including any threats to the auditor's independence and the safeguards to mitigate those threats including the provision of any non-audit services;
  - 8.1.7. confirm the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Fund compared to the overall fee income of the firm, office and partner and other related requirements; and
  - 8.1.8. confirm the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures.
- 8.2. The committee shall meet periodically with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) to discuss the auditor's remit and any issues arising from the audit;
- 8.3. The committee shall review the findings of the audit with the external auditor, including any major issues which arose during the audit, key accounting and audit judgements; material errors and levels of errors identified during the audit; and the effectiveness of the audit process.

- 8.4. The committee shall also review any representation(s) requested by the external auditor before they are signed and the response of any third party to which the finance functions have been delegated to the auditor's findings and recommendations.

## **9. Reporting responsibilities**

- 9.1. The committee chair shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and, in particular, any matters of concern and any recommendations for action.
- 9.2. The Committee shall formally report to the Board on how it has discharged its responsibilities.
- 9.3. The Committee shall compile a report on its activities to be included in the Fund's annual report.
- 9.4. The Committee should exercise judgement in deciding which of the issues it considers for reporting, but should include at least those matters that have informed the Board's assessment of whether the company is a going concern.

## **10. Other matters**

The committee shall:

- 10.1. have access to sufficient resources in order to carry out its duties;
- 10.2. be provided with appropriate and timely training, both in the form of an induction programme for new members and ongoing training;
- 10.3. give due consideration to laws and regulations, the provisions of any code applicable to listed companies and any other applicable rules, as appropriate;
- 10.4. be responsible for oversight of the co-ordination of the Fund's accountancy service providers and the external auditors;
- 10.5. arrange for periodic reviews of its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board.

## **11. Authority**

- 11.1. The committee is authorised to:
  - 11.1.1. approve payments from the Fund, noting that administration and investment expenses will be included in budgets agreed by the Board on an annual basis;
  - 11.1.2. seek any information it requires in order to perform its duties;
  - 11.1.3. obtain, at the Fund's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so; and
  - 11.1.4. call any employee to be questioned at a meeting of the committee as and when required.
- 11.2. Except as provided in 8.1.5 and 11.1.1 above, the committee shall have no decision-making powers and accordingly shall carry out reviews and approve documentation with a view to making recommendations to the Board.
- 11.3. The Board will from time to time delegate specific matters to the Committee.

**13 September 2022**