

**2.8 GROUP AUDIT COMMITTEE**  
**TERMS OF REFERENCE AND REPORTING LINE**



- MEMBERS:** At least three independent Non-executive Directors, at least one of whom is a financial expert as defined in the SEC Rules under the US Exchange Act.
- QUORUM:** Two members
- IN ATTENDANCE:** Group Chief Executive  
 Group Finance Director  
 Deputy Finance Director  
 Group General Counsel and Group Secretary  
 Head of Group Internal Audit  
 Head of Restructuring and Risk  
 Group Chief Risk Officer  
 Group Chief Accountant
- The External Auditor
- Specialists may be requested to attend for specific items or to make presentations to the Group Audit Committee.
- MEETINGS:** A minimum of five meetings per annum, with two of these meetings being held immediately prior to submission of the annual and interim financial statements to the Group Board. Ad hoc meetings can be called, as required, at the request of the Chairman of the Group, a Committee member, the Group Chief Executive, the Head of Group Internal Audit or the External Auditor.
- CHAIRMAN:** An independent Non-executive Director
- SECRETARY:** Assistant Secretary

**COMPOSITION:** Each member of the Group Audit Committee shall be a member of the Group Board but shall otherwise be independent. In addition to the definition in paragraph A.3.1 of the Combined Code, to be considered independent, a member of the Group Audit Committee may not, other than in his or her capacity as a member of the Group Audit Committee, the Group Board or any other committee of the Group Board:

- a) accept (directly or indirectly) any consulting, advisory, or other compensatory fee from the Group or any Group subsidiary; or
- b) be an Affiliated Person of the Group or any subsidiary of the Group.

An "Affiliated Person" of the Group means any person who, directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, the Group or any subsidiary of the Group.

**Main Responsibilities:**

The Group Audit Committee will be responsible for:-

1. Assisting the Royal Bank Board and the NatWest Board (collectively "the Bank Boards") and the Group Board in carrying out their responsibilities relating to accounting policies, internal control, financial reporting functions and risk assessment.
2. Assisting on such other matters as may be referred to it by the Group Board or the Bank Boards.
3. Acting as the Audit Committee of the Group Board and the Bank Boards.
4. Reporting to the Group Board, identifying any matters within its remit in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.

The Group Audit Committee will operate under delegated authority from the Group Board and the Bank Boards.

The Group Audit Committee may engage independent counsel and other advisers, as it determines necessary, to carry out its duties. The Group Audit Committee may also obtain appropriate funding, as it so determines, for payment of compensation to such advisers, to any auditors and for ordinary administrative expenses of the Group Audit Committee that are necessary or appropriate for carrying out its duties.

**Detailed Responsibilities:**

The detailed responsibilities of the Group Audit Committee will cover, in particular, the following:-

1. Financial Affairs of the Group
  - (a) To monitor the integrity of the financial statements of the Group (including any discussion or analysis thereof), and any formal announcements relating to the Group's actual and forecast financial performance, reviewing significant financial reporting judgements contained in them;
  - (b) To review any unusual items or matters brought to its attention requiring the exercise of managerial judgement affecting the preparation of the statements and announcements; and
  - (c) To provide a forum for the discussion and resolution of areas of disagreement in relation to the statements and announcements, e.g. between management and the External Auditor.
  
2. Accounting, Financial Reporting and Regulatory Compliance
  - (a) To review the Group's and Royal Bank and NatWest's accounting policies and practices and to consider their compliance with regulatory requirements;
  - (b) To review the controls and procedures established by management for compliance with regulatory and financial reporting requirements and with the requirements of external regulators; and
  - (c) To monitor the relationship with the Financial Services Authority and other relevant regulatory bodies, including review of the scope and results of work conducted by the Reporting Accountants approved by the Financial Services Authority.
  
3. Standards of Internal Control
  - (a) To monitor, by means of the Group-wide Consolidated Risk and Control Assessment (formerly the Turnbull Report) reporting process, the ongoing process of the identification, evaluation and management of all significant risks throughout the Group;
  - (b) To review the arrangements of the Group's systems of internal controls in relation to risk, financial management, compliance with laws and regulations and safeguarding of assets, and the procedures for monitoring the effectiveness of such controls;

- (c) To monitor any significant deficiencies and material weaknesses in internal controls and disclosure controls and procedures, as reported by Group Internal Audit and the External Auditor, and the implementation by management of appropriate remedial action; and
- (d) To review arrangements for the receipt, retention and treatment of complaints including those regarding accounting, internal accounting controls or auditing matters. To review procedures by which employees may, in confidence and with anonymity, raise concerns including those of questionable financial reporting, accounting or auditing matters.

#### 4. Group Internal Audit

- (a) To review the Terms of Reference for Group Internal Audit;
- (b) To approve the Annual Plan of Group Internal Audit, with reference to the appropriateness of the scope and timing of proposed coverage in relation to risk;
- (c) To monitor and review in broad terms, at least annually, the scope, nature of the work and effectiveness of Group Internal Audit, to receive and review its reports, findings and recommendations covering the management of key operating risks, the adequacy of any necessary follow up action and any relevant investigation work carried out by, or on behalf of Group Internal Audit ; and
- (d) To assess and confirm the independence of the Group Internal Audit function.

#### 5. Risk

- (a) To review the Terms of Reference for RBS Risk Management;
- (b) To approve the RBS Risk Management annual operational plan with reference to the appropriateness of the scope and timing of proposed coverage in relation to risk;
- (c) To review reports from management on any significant issues that require, or are subject to, remedial action or recommendation arising in the period under review (including those relating to adherence to internal risk policy, Group standards and agreed risk limits);
- (d) To review in broad terms the scope and nature of the work undertaken by RBS Risk Management (noting any significant issues in the period under review and work planned for the next period) in connection with:

- i. Credit risk;
- ii. Market risk;
- iii. Operational risk;
- iv. Compliance and Regulatory risk;
- v. Insurance risk;
- vi. Treasury and Liquidity Risk;
- vii. Country Risk and
- viii. Reputational risk

- (e) To report to the Board on its consideration of the above matters, identifying those areas where improvement is needed and making recommendations as appropriate.

## 6. Divisional Audit Committees

- (a) To review the Terms of Reference for Divisional Audit Committees;
- (b) To review bi-annual reports prepared by the Chairmen of the Divisional Audit Committees, such reports to include:
  - (i) a summary of the role and work of the Divisional Audit Committee, confirming that it has met all responsibilities as laid down in its Terms of Reference over the period in question;
  - (ii) the names and attendance record of all members of the Divisional Audit Committee during the period; and
  - (iii) the number of Divisional Audit Committee meetings held during the period.
- (c) To liaise with Divisional Audit Committees to promote consistent practices across such Committees, where this is considered desirable.

## 7. External Audit

- (a) To make recommendations to the Group Board, for it to put the Group Audit Committee's recommendations to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and the removal of the External Auditor;
- (b) To fix the remuneration of the External Auditor as authorised by shareholders;
- (c) To approve the terms of engagement of the External Auditor;
- (d) To resolve any disagreements between management and the External Auditor regarding financial reporting;
- (e) To review the scope and planning of the External Auditor;

- (f) To confirm that, in planning its work, the External Auditor places appropriate reliance on the work of Group Internal Audit, such that unnecessary overlap is avoided;
- (g) To review reports prepared by the External Auditor, including its annual management letter;
- (h) To review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration all relevant professional and regulatory requirements; and
- (i) To review the overall financial relationship between the Group, the Banks and the External Auditor.

8. Audit and Non-Audit Services Policy

- (a) To develop and implement guidance on the engagement of the External Auditor to supply audit and non-audit services (the "Policy"), taking into account relevant legislation and ethical guidance regarding the provision of audit and non-audit services by the External Auditor and to report to the Group Board, identifying matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; and
- (b) The Group Audit Committee shall consider and approve each audit and non-audit service to be provided by the External Auditor in accordance with the Policy.

9. Communication

- (a) To make available its terms of reference, including the Group Audit Committee's role and the authority delegated to it by the Group Board;
- (b) To describe in the Group's annual report the work of the Group Audit Committee including;
  - (i) a summary of the role of the Group Audit Committee;
  - (ii) the names and qualifications of all members of the Group Audit Committee during the period;
  - (iii) the number of Group Audit Committee meetings;
  - (iv) a report on the way the Group Audit Committee has discharged its responsibilities;

- (v) a description of the Group's policy and procedures for the approval of audit and non-audit services and an explanation of how External Auditor objectivity and independence is safeguarded where the External Auditor provides non-audit services; and
  - (vi) a description of the External Auditor's fees and services.
- (c) To review the Group Audit Committee Chairman's Annual Report, for submission to the Group Board.