

## TERMS OF REFERENCE FOR THE AUDIT AND RISK COMMITTEE

**Committee Purpose: To meet the statutory requirements of an Audit Committee whilst also having oversight of risk related matters on behalf of the Board.**

1. Membership	
1.1	The Committee membership shall include at least three independent non-executive directors.
1.2	The Committee as a whole shall have competence relevant to the sector in which the Company operates. At least one member of the Committee shall have recent and relevant financial experience. The Chairman of the Board shall not be a member of the Committee.
1.3	Only members of the Committee have the right to attend Committee meetings. Others may attend the meetings by invitation. The external auditors shall be invited to attend meetings of the Committee on a regular basis. At least once a year the Committee shall meet with the external auditors and the Head of Internal Audit without executive directors present.
1.4	The Chair of the Committee shall be an independent non-executive director appointed by the Board. In the absence of the Committee Chair at a Committee meeting, the remaining members shall elect one of themselves to chair the meeting.
2. Secretary	
2.1	The Company Secretary or his or her nominee shall act as the secretary of the Committee.

### 3. Quorum

- |     |  |
|-----|--|
| 3.1 | The quorum necessary for the transaction of business shall be two members. |
|-----|--|

### 4. Meetings

- |     |   |
|-----|---|
| 4.1 | Meetings shall be held not less than three times a year and at such other times as the Chair of the Committee shall require.  |
| 4.2 | Meetings shall be called by the secretary of the Committee at the request of the Committee Chair.   |
| 4.3 | Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other Non-Executive Directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time. |

### 5. Reporting Responsibilities

- |     |   |
|-----|---|
| 5.1 | The Committee Chair shall report formally to the Board on its proceedings after each meeting.   |
| 5.2 | The minutes of meetings shall be made available to all members of the Board, unless in the opinion of the Committee Chair it would be inappropriate to do so. |

## 6. Duties

### Assurance Over External Reporting

6.1	To monitor the integrity of external financial reporting, reviewing and challenging where necessary, having regard to matters communicated by the external auditor and reporting to the Board on any significant issues or judgements.
6.2	<p>To review the content of the Annual Report and Financial Statements and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary to assess the company performance, business model and strategy.</p> <p>To review and approve the statements to be included in the Annual Report concerning internal controls and risk management, including disclosures required in relation to climate risks and opportunities.</p>
6.3	To review and advise the Board on the integrity of the content of those regulatory submissions for which Board approval is required by Ofwat; including the Annual Performance Report and Price Review.
6.4	To monitor and review the effectiveness of the risk management and internal controls systems of the Company and to review and recommend to the Board the statements made in the Annual Report concerning internal control, risk management, including the assessment of principal, emerging and strategic risks, and the viability statement.

## Speaking Up Arrangements

- |     |  |
|-----|--|
| 6.5 | <p>To review the adequacy and security of the speaking-up arrangements for concerns to be raised by colleagues, contractors and external parties in confidence about possible wrongdoing.</p> <p>To ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.</p> |
|-----|--|

## Assurance Over Internal Controls and Procedures

- |     |   |
|-----|---|
| 6.6 | <p>To review the fraud detection procedures in the Company and the systems and controls to prevent bribery. To receive reports on non-compliance in these areas.</p>  |
| 6.7 | <p>To review and approve the role and mandate of the Internal Audit function, monitor and review the effectiveness of its work and annually approve the Internal Audit Charter, ensuring it is appropriate for the current needs of the Company.</p>  |
| 6.8 | <p>To review and approve the annual Internal Audit Plan, to ensure it is aligned to key risks and processes and receive regular reports on work carried out. To review the management responses to the issues raised to ensure these are adequate with appropriate timescales for addressing the issues.</p>  |
| 6.9 | <p>To ensure the Internal Audit function has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate.</p> <p>To ensure the Head of Internal Audit has direct access to the Board Chair and to the Committee Chair, providing independence from the executive and accountability to the Committee.</p> <p>To carry out a periodic assessment of the effectiveness of the Internal Audit function.</p> |

6.10	To have oversight of the Internal Audit co-sourcing arrangements and to approve any appointments in this regard.
6.11	To have oversight of the integrated assurance in place across the business and to assess the adequacy of the plans to address any assurance gaps identified.
6.12	To oversee and seek suitable assurance regarding the effectiveness and relative costs and benefit of particular controls.
<b>Oversight of the External Audit Relationship</b>	
6.13	To consider and make recommendations to the Board on the appointment, re-appointment or removal of the external auditor.
6.14	To oversee the selection procedure for the appointment of the external auditors in accordance with FRC Guidance.
6.15	To oversee the relationship with the external auditors and approve their remuneration, the terms of their engagement and annually assess their independence and objectivity.
6.16	To discuss and agree with the external auditors, before the audit commences, the annual audit plan and the nature and scope of the audit.
6.17	To meet regularly with the external auditor, including meeting without management present at least annually, to discuss the remit of the auditor and any issues arising from the audit.
6.18	To review the findings of the audit with the external auditor.

## Oversight of Risk Management

6.19	To review the overall risk appetite, risk tolerance and risk strategy of the Company, and the principal, emerging and strategic risks the Company is willing to take in order to achieve its long-term objectives and make recommendations to the Board in relation to these.
6.20	To review the likelihood and the impact of principal risks materialising and the management and mitigation of principal risks to reduce the likelihood of their incidence or their impact and make recommendations to the Board accordingly.
6.21	To review the risk aspects of proposed changes to strategy and strategic transactions, focussing on implications for the risk appetite, tolerance and strategy of the Company, and taking independent external advice where appropriate and available.
6.22	To review the proposed plans and actions to manage or mitigate principal risks and to identify emerging risks, to assist in the Board's assessment of principal, emerging and strategic risks.
6.23	To undertake 'deep dives' on principal risks to ensure these are understood in sufficient detail by Committee members to enable informed assessment of the adequacy of the proposed mitigating actions.
6.24	To receive reports on any material deviations from agreed risk tolerances and consider the adequacy of proposed actions.
6.25	To receive the outcome of the annual Evaluation of Compliance process and to review this on behalf of the Board.
6.26	To oversee and seek suitable assurance regarding the capability of the Company to identify and manage new and emerging risks.

## Financial Capital

6.27	To review the bad debt position of the Company and collection processes, considering societal changes which may impact upon the debt position.
6.28	To review the Company tax strategy, recommending the strategy to the Board for approval.
6.29	To receive and consider updates on the sustainable finance framework.

## 7. Authority

7.1	<p>The Committee is authorised by the Board to investigate any activity within these Terms of Reference and to seek any information it requires.</p> <p>The Committee is also authorised to obtain, at the expense of the Company, independent legal, accounting or other professional advice on any matter it believes necessary.</p>
-----	--