# 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.**

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| **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 water sector. At least one member of the Committee shall have recent and relevant financial experience. The Chair 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 Audit and Risk 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. |

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| **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 |

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| | communicated by the external auditor and reporting to the Board on any significant issues or judgements. |
| 6.2 | To review the application of significant accounting policies and any change to them, as well as the methods used to account for significant or unusual transactions where different approaches are possible. |
| 6.3 | 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.<br>To review and approve the statements from the Board to be included in the Annual Report that include financial information.<br>To report on the activities the Committee has undertaken to meet the requirements of the FRC publication; *Audit Committees and the External Audit: Minimum Standard.* |
| 6.4 | To review the work undertaken each year in relation to going concern and long-term viability and the statements being made in these areas, providing advice to the Board on the appropriateness of such statements. |
| 6.5 | 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. |
| **Speaking Up Arrangements** | |
| 6.6 | To review the adequacy of the speaking-up arrangements for concerns to be raised by colleagues, contractors and external parties in confidence about possible wrongdoing.<br>To ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action. |

| Assurance Over Internal Controls and Procedures | |
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| 6.7 | To review the effectiveness of the Internal Audit function and annually approve the Internal Audit Charter, ensuring it is appropriate for the current needs of the Company. |
| 6.8 | To review and approve the annual Internal Audit Plan, to ensure it is aligned to key risks and processes, and enables the Board to make declarations in relation to the effectiveness of the internal control framework. |
| 6.9 | To receive regular reports on internal audit work carried out, reviewing the management responses to the issues raised to ensure these are adequate with appropriate timescales to address the issues. |
| 6.10 | To ensure the Internal Audit function has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate.<br>To ensure the Head of Audit and Risk has direct access to the Board Chair and to the Committee Chair, providing independence from the executive and accountability to the Committee. |
| 6.11 | 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. |
| 6.12 | To have oversight of the material controls identified by the business and the assurance in place to enable a declaration to be made regarding the effectiveness of the material controls at the balance sheet date annually from 2029. |
| 6.13 | 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. |

| Oversight of External Audit | |
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| 6.14 | To lead the tendering process for external auditors in accordance with the FRC publication; *Audit Committees and the External Audit: Minimum Standard*, making recommendations to the Board on the appointment, re-appointment or removal of the external auditor. |
| 6.15 | To oversee the relationship with the external auditors and approve their remuneration, the terms of their engagement and annually assess their independence, objectivity and the effectiveness of the external audit process. |
| 6.16 | To discuss and agree with the external auditors the annual audit plan and the nature and scope of the audit, referring back to this afterwards to consider whether the commitments made in the plan were met. |
| 6.17 | To meet regularly with the external auditors, including meeting without management present at least annually, to discuss any issues arising from the audit. |
| 6.18 | To review the findings of the audit with the external auditor. |
| 6.19 | To review the FRC annual report on the auditor and discuss this with the auditor, obtaining an understanding of how any issues identified are being addressed. |
| **Oversight of Risk Management** | |
| 6.20 | To have oversight of the ability of the risk management and internal controls systems in the business to identify the risks facing the company and enable a robust assessment of principal risks. |
| 6.21 | To seek assurance on the risks the company has identified, and to advise the Board on the likelihood and impact of principal risks materialising, and the management and mitigation of principal risks to reduce the likelihood of their incidence or their impact, receiving 'deep dives' on principal risks as appropriate to ensure these are understood |

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| | in sufficient detail by Committee members to enable informed assessment of the adequacy of the proposed mitigating actions. |
| 6.22 | To oversee the effectiveness of the management of cyber risk, ensuring risks are identified, assessed and managed in line with strategy, risk appetite and regulatory obligations.<br><br>To review the principal cyber risks, including emerging threats and technology-driven changes, ensuring cyber risk appetite is clearly defined and integrated within the enterprise risk framework, and providing challenge to management on priorities, investment and capability.<br><br>To receive regular reporting on cyber risk, control effectiveness and assurance, ensuring issues are addressed in a timely and risk-aligned manner, and that cyber security is embedded across key business activities and third-party relationships.<br><br>To oversee the development and execution of a risk-aligned cyber strategy and maturity roadmap proportionate to the exposure of the company.<br><br>To escalate to the Board where material cyber incidents occur, risk exceeds appetite, or significant decisions are required. |
| 6.23 | To advise the Board on the overall risk appetite and tolerance of the company, and the principal and emerging risks the company is willing to take in order to achieve its long-term strategic objectives. |
| 6.24 | To review the procedures for identifying emerging risks to ensure these are identified on a timely basis and adequately managed. |
| 6.25 | To review and approve the Board statements to be included in the Annual Report concerning risk management, the internal control framework, and material controls. |
| 6.26 | To receive reports on any material deviations from agreed risk tolerances and consider the adequacy of proposed actions. |

| Financial Capital | |
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| 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 | The Committee is authorised by the Board to investigate any activity within these Terms of Reference and to seek any information it requires.<br>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. |