

Wessex Water Services Limited

Audit and Risk Committee

Terms of Reference

1. Purpose

- 1.1 The Audit and Risk Committee (the "Committee") is a Committee of the Board of Wessex Water Services Limited (the Company).
- 1.2 The principal purpose of the Committee is to:
- (a) review and monitor risks throughout the corporate risk register;
 - (b) review the Company's internal control systems and process for managing risk;
 - (c) oversee the creation of policies and supporting measures;
 - (d) review the Company's financial statements;
 - (e) review the Company's Annual Review;
 - (f) review the Company's internal audit arrangements led by the appointed Head of Internal Audit and audit programme; and
 - (g) consider the appointment of the external auditor, its independence and its working relationships with the Company.
- 1.3 Direct responsibility for management of risk lies with the Board who receive advice from the Risk Management Group that reports to the Executive Leadership Team and Board. If the Committee is not satisfied that a correct and proper risk process is in place and has been carried out at least annually, it is authorised to refer the matter to the Board's attention with a recommendation that the Committee assumes direct responsibility for managing the risk management process.
- 1.4 The Committee will, in performing its duties, take account of customer and stakeholder needs.

2. Composition and procedure

- 2.1 The Committee will comprise a majority of Independent Non-Executive Directors as appointed by the Board from time to time at least one of whom with recent and relevant financial and audit experience. Three members present will constitute a quorum. The Board will appoint an Independent Non-Executive Director as the Chair of the Committee.
- 2.2 The Committee requires the attendance of:
- (a) the Executive Director Finance and Regulation;
 - (b) the Company Secretary or his or her nominee;
 - (c) the Group Financial Controller;

(d) Director of Risk and Investment; and

(e) Head of Internal Audit.

aAt each meeting in an advisory capacity.

2.3 A representative of the Company's external auditors may attend meetings of the Committee at the invitation of the Committee.

2.4 Meetings will take place 'as required' and be sufficiently scheduled to give due consideration of the issues, as determined by the Chair of the Committee. The Committee will usually meet five times a year but not less than three times a year to coincide with the Company's half year and full year results. The Chair, Chief Executive, Company Secretary, any member of the Committee or the external auditor may convene a meeting of the Committee at any time to discuss any matter falling within the Committee's remit.

3. Secretary

3.1 The Company Secretary or his or her nominee will act as the Secretary of the Committee.

4. Notice of meetings

4.1 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, will 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, unless agreed otherwise in advance. Supporting papers will be sent to Committee members and to other attendees as appropriate, at the same time.

4.2 Members may participate in a meeting by means of telephone, video conferencing facility or other suitable communicating equipment.

5. Minutes

5.1 The Secretary will minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.

5.2 Minutes of Committee meetings will be circulated to all members of the Committee unless it would be inappropriate to do so.

6. Duties of the Committee

6.1 The Committee will carry out the duties below:

(a) *Financial reporting*

The Committee will review the integrity of the financial statements of the Company, including its annual and half-yearly reports, and any other formal announcement relating to its financial performance, where it is considered that a review of significant financial reporting issues and judgements is required.

In particular, the Committee will review and challenge where necessary:

- (i) the methods used to account for significant or unusual transactions where different approaches are possible;
- (ii) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (iii) the clarity and completeness of disclosure in the Company's financial reports and the context in which disclosures are made;
- (iv) changes to significant accounting policies; and
- (v) the process undertaken to ensure that directors are able to make the statement required by section 418 Companies Act 2006 in respect of relevant audit information;

(b) *Regulatory reporting*

In respect of the Company's regulatory reporting obligations, the Committee will review and challenge where necessary the integrity of the processes and information within the annual Risk & Compliance Statement submitted to the Office of Water Services (Ofwat) and the Regulatory Accounts;

(c) *Internal controls and risk management systems*

The Committee will at least annually:

- (i) review and monitor the adequacy and effectiveness of the company's risk and resilience management processes internal financial controls and internal control; and
- (ii) review and approve the statements to be included in the Company's annual report concerning internal controls and risk management;

(d) *Raising of Concerns ("whistleblowing"), bribery and fraud*

The Committee will:

- (i) review reports of matters arising in respect of financial or internal control matters from the Company's raising a concern procedures (the adequacy of which are reviewed by the Environment and Public Value Committee of the company);
- (ii) oversee the creation of policies and review the Company's procedures for preventing and detecting fraud; and
- (iii) review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;

(e) *Health and Safety and Human Resources*

The Committee will review policies relating to health and safety and human resources promoted via the Environment and Public Value Committee if required by the Board.

(f) *Internal audit*

The Committee will:

- (i) review and approve the remit of the Company's internal audit function, having regard to the complementary roles of the internal and external audit functions;
- (ii) monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- (iii) approve the appointment and removal of the Head of the Internal Audit function;
- (iv) ensure the internal audit function has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee will also seek to ensure the function has adequate standing and is free from management or other restrictions;
- (v) review and assess the annual internal audit plan;
- (vi) review reports addressed to the Committee from the internal auditor;
- (vii) review and monitor management's responsiveness to the findings and recommendations of the internal auditor;
- (viii) meet the Head of Internal Audit at least once a year, without management being present, to discuss its remit and any issues arising from the internal audits carried out; and
- (ix) ensure that the Head of Internal Audit has the right of direct access to the Chair of the Board, the Senior Independent Non-Executive Director, the Committee and is accountable to the Committee;

(g) *Risk*

The Committee will:

- (x) monitor the appropriateness of the corporate risk register;
- (xi) review the risk management framework established by management and ensure it provides an integrated approach to business resilience of shocks and stresses;
- (xii) monitor risks to the business and the mitigations in place to manage risk within the agreed limits;
- (xiii) advise the Board on risk on a regular basis;

(h) *External audit*

The Committee will consider matters relating to the appointment of the external auditor including:

- (i) making recommendations to the Board in relation to the appointment, re-appointment and removal of the Company's external auditor;
- (ii) annually assuring itself on the qualifications, expertise and resources of the auditor and the effectiveness of the audit process;
- (iii) if the Committee decides to consider the appointment of new auditors, overseeing the selection process for a new auditor and, if an auditor resigns, investigate the issues leading to this and decide whether any action is required; and
- (iv) overseeing the relationship with the external auditor including (but not limited to):
 - (1) approval of their remuneration for audit services, including establishing whether the level of fees is appropriate to enable an adequate audit to be conducted;
 - (2) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (3) assessing their independence and objectivity taking into account relevant UK professional and regulatory requirements, the relationship with the auditor as a whole, the rotation of the audit partner, including the provision of any non-audit services;
 - (4) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business);
 - (5) meeting regularly with the external auditor. The Committee will meet the external auditor at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit;
 - (6) reviewing and approving the annual audit plan and ensuring that it is consistent with the scope of the audit engagement;
 - (7) reviewing the findings of the audit with the external auditor. This will include but not be limited to, the following:
 - a. a discussion of any major issues which arose during the audit;
 - b. any accounting and audit judgements; and
 - c. levels of errors identified during the audit;
 - (8) reviewing any representation letter(s) requested by the external auditor before they are signed by management; and

- (9) reviewing the annual report to the Audit Committee and management's response to the auditor's findings and recommendations.

7. Reporting

- 7.1 The Committee Chair will report orally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. Drafts of Committee minutes will be sent to the Committee Chair. Once approved they will be circulated with papers for the next Board.
- 7.2 The Committee will make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed. Final decisions are taken by the Board.
- 7.3 The Committee will approve the section in the Annual Report which deals with the activities of the Committee.

8. Resources and review

- 8.1 The Committee will:
 - (a) have access to sufficient resources in order to carry out its duties, including access to the Company Secretary and the Company's solicitors for assistance as required;
 - (b) give due consideration to the Company's Licence, laws and regulations, the provisions of the Code and best audit practice;
 - (c) oversee any investigation of activities which are within its terms of reference; and
 - (d) arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

9. Powers

- 9.1 The Committee is authorised:
 - (a) to seek any information, it requires from any employee of the Company in order to perform its duties;
 - (b) to obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference;
 - (c) to call any employee to be questioned at a meeting of the Committee as and when required; and
 - (d) to have the right to publish in the Company's annual report details of any issues that cannot be resolved between the Committee and the Board.

Change History Record

Issue	Description of Change	Approval	Date of Issue
1	Issued as a standalone document	Board	February 2018
2	Reviewed and revised	Board	July 2019
3	Reviewed and revised	Board	November 2019
4	Reviewed and revised	Board	March 2021