

# AUDIT & RISK COMMITTEE CHARTER

APRIL 2016

HUNTER WATER



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## 1 COMMITTEE NAME

The committee shall be known as the Audit and Risk Committee (the “Committee”).

## 2 PURPOSE

To assist the Board of Directors in fulfilling its oversight responsibilities for the financial and operational reporting process, the system of internal control, the risk management framework and risk profile, the audit process and the Corporation’s process for monitoring compliance with laws, regulations and Corporation policy.

## 3 OBJECTIVES

In fulfilling its purpose, the Committee’s objectives are:

- To be satisfied that systems and processes are in place regarding governance and risk management.
- To review the development and delivery of the Internal Audit Plan
- To review the appropriateness of accounting policies and disclosures to present a true and fair view of the financial statements.
- To assess appropriateness of Hunter Water’s Fraud and Corruption Prevention and Detection Framework.

## 4 AUTHORITY

The Audit and Risk Committee has authority to conduct or authorise investigations into any matters within its scope of responsibility. It is empowered to:

- Recommend the appointment, removal or replacement of the Manager Internal Audit.
- Oversee the operations of the internal audit activity.
- Resolve any disagreements between management and the external financial auditor regarding financial reporting.
- Retain independent counsel, accountants or others to advise the committee or assist in the conduct of an investigation.
- Seek any information it requires from employees – all of whom are directed to cooperate with the committee’s requests – or external parties.
- Meet with company officers, internal auditors, external auditors, or outside counsel, as necessary.

## 5 DUTIES AND RESPONSIBILITIES

### Reporting

The Audit and Risk Committee shall report on its activities to the Board.

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## **External Financial Reporting**

- Consider the appropriateness of Hunter Water's accounting policies and procedures and any changes to them, and the methods of applying them, ensuring that they are in accord with the stated reporting framework.
- Review the appropriateness of accounting policies and disclosures to present a true and fair view.
- Obtain an independent opinion from external audit on management's:
  - technical compliance with accounting standards;
  - proper application of the accounting principles; and
  - clarity in financial disclosure practices as used or proposed in Hunter Water's annual report.
- Recommend to the Board whether the financial report and any associated non-financial disclosures should be approved based on the Audit and Risk Committee's assessment of them.

## **Internal Control and Risk Management**

- Assess the effectiveness of internal processes for determining and managing material business risks in accord with the company's identified tolerance for risk, particularly in the following areas:
  - potential non-compliance with laws, regulations and standards and Hunter Water policy;
  - important accounting judgements or estimates that prove to be wrong;
  - litigation and claims;
  - fraud and theft;
  - business continuity; and
  - significant business risks, recognising that responsibility for general or specific risk areas, including but not limited to, environmental risk and occupational health and safety, might be assigned to other Board sub-committees.
- Oversight of Hunter Water's risk management framework and activities.
- Establish and maintain a reporting framework with the Expenditure Review Committee.
- Liaise with other subcommittees as required.
- Overseeing management's efforts to create and maintain a strong internal control environment, including the design and implementation of anti-fraud strategies and programmes.

## **External Audit**

- Report to the Board on the effectiveness and independence of the external auditor.
- Ensure that the committee refers to, and examines carefully, any comments by management regarding the auditor's performance. The committee shall report to the Board on its examination before any decision regarding action to be taken is made by the Board.

- Agree on the terms of the audit engagement with the external auditor at the start of each audit.
- Assess with the external auditor and agree to any additional assurance engagements on a regular and timely basis and the implications for the external auditor's independence.
- Ask the auditor if there have been any significant resolved or unresolved disagreements with management.
- Provide the opportunity for committee members to meet with the external auditors at least once a year without management.
- Review the external auditor's independence. Consider whether the external auditor's relationships and services with the company and other relevant organisations might impair or appear to impair the external auditor's independence.

### **Internal Audit**

- Participate in the appointment and dismissal of the Manager Internal Audit.
- Annually review internal audit's mission, charter, resources and budget such that the charter maintains and enforces internal audit's independence from management.
- Maintain the independence of the internal audit function from the external audit function.
- Review and approve the scope of the internal audit plan and work program.
- Provide Audit and Risk Committee members access to the internal audit team without the presence of management.
- Monitor the progress and quality of the internal audit plan and work program.

### **Compliance and Ethics**

- Oversee compliance with laws and regulations relating to the responsibilities detailed in this Charter.
- Regularly review significant issues, independent investigations and disciplinary action.

### **Fraud**

- Overseeing Hunter Water's Fraud and Corruption Prevention and Detection Framework and monitoring actual and suspected instances of wrongdoing, as defined in the Public Interest Disclosures Act.

## **6 MEMBERSHIP, APPOINTMENT AND TERM**

Members of the committee shall be appointed by the Corporate Governance Committee of the Board. Membership will be re-assessed annually taking into consideration the requirements of all Board sub-committees and the experience and skills of Directors.

Committee members need to understand the committee's role, objectives and responsibilities, be familiar with the Committee's relationship with management and the internal and external auditors as well as have a sound knowledge of Hunter Water's

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operations and the environment in which it operates. Members should also have an understanding of the Corporation's Code of Conduct.

New committee members are to receive an induction to the committee which will include their being provided with a copy of this Charter and information on the Corporation's financial performance; risk profile and list of material business risks; the system of internal control; key financial reporting policies; legal and regulatory requirements; Code of Conduct; unusual transactions; Hunter Water's Corruption Control Framework and an estimate of the time committee members need to commit to their committee role. The induction shall include an introduction to the Internal Audit and Risk Management Groups and Hunter Water's Chief Finance Officer. New Members will be introduced to the Corporation's external auditors at their next visit to the Corporation. New Committee Members shall also be provided with all material previously provided to committee members for matters still before the Committee.

### **Responsibilities of Members**

Members of the committee are expected to:

- contribute the time needed to study and understand the papers provided;
- apply good analytical skills, objectivity and good judgement; and
- express opinions frankly, ask questions that go to the fundamental core of the issue and pursue independent lines of enquiry.

### **Composition**

The Audit and Risk Committee shall consist of at least four and no more than six members. Only Non-Executive Directors are eligible for membership and a majority of Committee Members will be independent Directors (as defined by the ASX Best Practice Principles).

- (i) Committee members shall all be financially literate with at least one member having financial expertise (that is, is a qualified accountant or other financial professional with experience of financial and accounting matters).
- (ii) The Committee shall also comprise some members who have an understanding of the water and wastewater industries.

## **7 CHAIRMAN**

The Board's Corporate Governance Committee shall appoint a Non-Executive Director as chair to the Committee, who is not Chair of the Board.

## **8 SECRETARY**

The Manager Internal Audit will be the Secretary of the Committee. The Secretary, in conjunction with the Chairman, will be responsible for determining the agenda and distributing the business papers to the Committee members prior to each meeting. The Secretary will also be responsible for keeping the minutes of the Committee. The Secretary may be supported in these duties by other management personnel.

## **9 MEETINGS**

The Committee will hold at least four regular meetings per year and such additional meetings as the chair shall decide is necessary for the committee to fulfil the committee's charter. In addition, the chair is required to call a meeting of the committee if requested to do so by any

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committee member, the Managing Director, the Company Secretary, the Chief Finance Officer, the Manager Internal Audit or external auditors. All Audit and Risk Committee members are expected to use their best endeavours to ensure their attendance at each meeting, in person or via teleconference.

The committee will invite members of management, auditors or others to attend meetings and provide pertinent information as required. Representatives of both internal and external audit will be invited to attend relevant parts of each meeting. The chair may decide that they should not attend for certain agenda items. The committee will meet separately, periodically, with management, internal auditors and external auditors. It will also meet periodically in executive session. Meeting agendas will be prepared and provided to members in advance together with appropriate briefing materials. Minutes will be prepared and signed by the chair at the subsequent meeting.

## **10 CONFLICT OF INTEREST**

Committee Members must declare their interest, whether perceived, pecuniary or otherwise, in the exercise of their duties.

## **11 QUORUM**

A quorum shall consist of 2 Committee Members

## **12 ASSESSMENT**

Hunter Water's Board in consultation with the Audit and Risk Committee Chair, will establish a mechanism to review and report on the performance of the Committee, including the performance of the Chair and each member at least annually. The review will be conducted on a self-assessment basis with appropriate input sought from the Board, the internal and external auditors, management and any other stakeholders deemed relevant by the Board.

## **13 REVIEW OF COMMITTEE CHARTER**

The committee shall review the Audit and Risk Committee Charter on an annual basis.

Approved:	27 August 2015	Board of Directors
Endorsed:	30 July 2015	Corporate Governance Committee
Last Reviewed:	31 March 2016	Audit and Risk Committee