



Internal Audit Charter

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Author:	Nicola Brennan, Head of Internal Audit
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TABLE OF CONTENTS

Section		Page
1	Purpose of Internal Audit Charter	1
2	Vision Statement / Purpose of Internal Audit	1
3	Standards	1
4	Mandate	1
	a) Authority	1
	b) Independence, positioning and reporting relationships	2
	c) Scope	3
5	Roles and Responsibilities	3
	(i) Head of Internal Audit	3
	a) Ethics and Professionalism	3
	b) Objectivity	3
	c) Managing the Internal Audit Function	4
	d) Quality Assurance and Improvement Programme	5
	(ii) Management	5
	(iii) Audit Committee	6
6	Reporting	6
7	Nature and scope of Internal Audit Assurances	6
8	Relationship with other Assurance Providers	8
9	Role in Fraud Related / Investigation Work	8
10	Enquiries	9
11	Review of Charter	9

1. PURPOSE OF INTERNAL AUDIT CHARTER

The purpose of the Internal Audit Charter is to define the Internal Audit function's mandate (authority, role, scope and responsibility), reporting and other relationships and other responsibilities.

2. VISION STATEMENT / PURPOSE OF INTERNAL AUDIT

NI Water Group Internal Audit's vision is to be '*a valued and trusted key strategic partner, supporting achievement of the Group's world class vision via: – Delivering timely valued assurance; providing insight and foresight; supporting business priorities; and protecting sustainability*'.

This is consistent with the Global Internal Audit Standards purpose statement for internal audit. The internal audit function should enhance NIW Group's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest and obtain value for money.

3. STANDARDS

Internal Audit will perform its duties in accordance with the IIA International Professional Practices Framework (IPPF) which includes the Global Internal Audit Standards*, Topical Requirements and will consider the Internal Audit Code of Practice. The Head of Internal Audit will report annually to the Audit Committee and Executive Management regarding the internal audit function's conformance with the Standards, which will be assessed through a quality assurance and improvement program.

*In accordance with DAO (DoF) 03/25 the Application Note for Internal Audit within the UK Public Sector is also considered.

To assist to ensure compliance with Standards and best practice guidance, all Internal Audit reviews are to be completed in accordance with the approach and methodologies as defined within the Internal Audit Procedures Manual.

4. MANDATE

a) Authority

The Audit Committee grants the internal audit function the mandate to provide the Audit Committee and Executive Management with objective assurance, advice, insight, and foresight.

The Audit Committee authorises Internal Audit to have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.

There are no restrictions placed on the scope of Internal Audit's work. Internal Audit has sufficient authority to allow access as such to assets, records and personnel as necessary for the proper fulfillment of its duties.

The Internal Audit function's authority is created by its direct reporting relationship to the Audit Committee.

The Head of Internal Audit will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

b) Independence, positioning and reporting relationships

Internal Audit is independent of the activities which it audits to ensure unbiased judgement, essential to its independent assurance remit. The independence is strengthened with the Head of Internal Audit's reporting lines as follows:

- Primary functional reporting line to the Chair of the Audit Committee in respect of the scope and remit of internal audit activity, reporting on Internal Audit activity, assessment of adequacy of resources, appraisal of function effectiveness and ongoing assessment of independence.
- Secondary reporting line to the Chief Executive for day-to-day reporting and administrative purposes.
- The Head of Internal Audit will have unrestricted access to, and communicate and interact directly with the Audit Committee, including in private meetings without management present.
- Right of access to the Chair of the Board, where issues cannot first be satisfactorily resolved with the Chief Executive and Chair of the Audit Committee; and
- Both the Chief Executive and the Chair of the Audit Committee will have a role in the Head of Internal Audit's annual performance appraisal. Where their tenure exceeds seven years, this will include an assessment of their continuing independence and objectivity.

The Head of Internal audit will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit department/activity. This is included as part of the Head of Internal Audit's annual performance self-assessment report.

In the event that the Head of Internal Audit considers that independence of internal audit activity has been impaired / could be perceived to be impaired, they will immediately notify the Chief Executive and Audit Committee Chair and agree any remedial action required.

The appointment or dismissal of the Head of Internal Audit requires the prior approval of the Audit Committee.

c) Scope

The scope of the Internal Audit function and related assurance or advisory activities applies to the Company (NI Water Ltd) and all its subsidiaries, i.e. the 'Group'. The nature and scope of services is set out further in Section 7.

5. ROLES AND RESPONSIBILITIES

(i) Head of Internal Audit

a) *Ethics and Professionalism*

The Head of Internal Audit must be either MIIA or CCAB qualified. The Head of Internal Audit will ensure that internal auditors:

- Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Conform with the UK Public Sector Nolan Principles (DAO(DoF)03/25): Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organisation and be able to recognize conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the organisation.
- Report organisational behavior that is inconsistent with the organisation's ethical expectations, as described in applicable policies and procedures.

b) *Objectivity*

The Head of Internal Audit will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

To avoid conflicts of interest, Internal Audit does not have any executive management responsibilities and is not part of the direct control framework. If Internal Audit undertakes non-audit activities, such as sitting on Project Boards, this is in an advisory / consulting capacity and Internal Audit does not have any decision-making authority.

The Head of Internal Audit, in a voluntary capacity, is a Company nominated Trustee of the NIW Pension Trust Company (not part of NIW Group and outside

of Internal Audit's scope but related company to the NIW Group Ltd). To manage any potential conflicts of interest however in this regard, the Head of Internal Audit will excuse them-self from any pension related discussions that arise in NIW Group Ltd meetings, as required.

If Internal Auditors or the Head of Internal Audit determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties and at least annually, such as senior management, Audit Committee, or others.

c) Managing the Internal Audit Function

The Head of Internal Audit has the responsibility to:

- Submit, at least annually, to Executive Management and the Audit Committee a risk-based internal audit plan for review and approval. This is developed using a risk-based methodology, and also considers the Group's strategic objectives and emerging issues / latest guidance.
- Keep the annual plan under review, ensuring trends and emerging risks / issues that could impact the Group are considered timely and proposed changes to the annual plan communicated to Executive Committee and the Audit Committee, as appropriate.
- Communicate to Executive Management and the Audit Committee the impact of any resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in business risks, operations, programmes, systems and controls.
- Communicate to Executive Committee and the Audit Committee any significant interim changes to the internal audit plan.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards.
- Follow up on engagement findings and corrective actions, and report periodically to Executive Management and the Audit Committee any corrective actions not effectively implemented. If Head of Internal Audit considers the risk therefore accepted by management to be outside the organisation risk tolerance, it will be highlighted to the Audit Committee.
- Provide an annual independent assurance opinion in relation to the control, governance and risk management environment.
- Ensure the principles of integrity, objectivity, due professional care, professional skepticism, confidentiality, and competency are applied and upheld.
- Ensure the internal audit department collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Global Internal Audit Standards and fulfil the internal audit mandate. Securing any necessary external expertise from available co-sourcing contracts, as appropriate.

- Ensure emerging trends and successful practices in internal auditing are considered. Establish and ensure adherence to methodologies designed to guide the internal audit function.
- Ensure adherence to Group relevant policies and procedures, unless such policies and procedures conflict with the Internal Audit Charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to Executive Management and Audit Committee.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the Head of Internal Audit cannot achieve an appropriate level of coordination, the issue must be communicated to Executive Management and if necessary escalated to the Audit Committee.

d) Quality Assurance and Improvement Programme

The Head of Internal Audit must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. This is designed to enable an evaluation of the internal audit activity's conformance with the Global Internal Audit Standards and performance measurement to assess the internal audit function's progress in achievement of its objectives and promotion of continuous improvement. The programme must also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.

Annually, the Head of Internal Audit will report on Quality Assurance and Improvement Programme activity to the Audit Committee and Executive Management; this incorporates:

- Feedback from audit assignment satisfaction surveys;
- Results from feedback survey of Audit Committee and Executive Directors;
- Results against Audit Performance KPIs using the balanced scorecard approach;
- Progress against the Internal Audit Development Strategy, to demonstrate continuous improvement;
- Self-assessment of conformance with the Global Internal Audit Standards and the Internal Audit Code of Practice; and
- An independent External Quality Assessment by a qualified assessor / assessment team at least once every five years. The External Quality Assessment may occur sooner if there are significant changes to IA operations.

(ii) Management

Management responsibilities include:

- a) Designing, implementing, operating and maintaining effective controls;
- b) Facilitating any access for Internal Audit to personnel, records or assets to enable it to perform its duties;

- c) Making themselves available for meetings with the internal audit team as required;
- d) Providing management responses to all audit reports issued within 10 working days (unless otherwise agreed due to exceptional circumstances); and
- e) Implementation of agreed management actions in accordance with the requirements set out in the 'Response to Internal Audit Recommendations Procedure'.

(iii) Audit Committee

The Audit Committee's responsibilities in support and oversight of the Internal Audit function are defined within the Audit Committee Terms of Reference.

6. REPORTING

Internal Audit will provide regular progress reports to the Executive Committee and Audit Committee. Key reporting covers, but is not limited to the following:

- a) The Internal Audit function's mandate.
- b) The Internal Audit Annual Plan, setting out the scope of its work for the period is submitted to the Audit Committee annually for approval. The Internal Audit function annual budget is also provided for Audit Committee information and discussion as required.
- c) Internal Audit summary progress reports to each Audit Committee meeting, setting out summary of findings from completed assurance and advisory work, any significant risk exposures and control issues arising in the period, progress in closure of previous audit recommendations and progress in completion of agreed annual audit plan. This also includes any revisions to the internal audit plan and updates on resourcing / budget.
- d) Where Internal Audit view that a risk accepted by management is outside risk appetite tolerance, in event this remains unresolved on escalation to Executive Management and the Chief Executive, it will be reported to Audit Committee.
- e) Potential impairments to independence, including relevant disclosures as applicable.
- e) An independent annual assurance opinion over the adequacy and effectiveness of governance, risk management and control from the Head of Internal Audit.
- f) Internal Audit Development Strategy and KPIs.
- g) Status of the quality assurance and improvement programme (see Section 5), which includes the internal audit function's conformance with the Global Internal Audit Standards, the Code of Practice and action plans to address the internal audit function's deficiencies and opportunities for improvement.

The Shareholder (DfI) will receive copies of the Internal Audit Annual Plan, final audit reports, progress reports to the Audit Committee, and the Annual Opinion.

7. NATURE AND SCOPE OF INTERNAL AUDIT ASSURANCES

The scope of the internal audit services covers the entire breadth of the NIW Group, including all processes, assets and personnel. The Internal Audit plan sets out the planned programme of internal audit activity which includes assurance and advisory services over a three-year rolling period from the audit universe. This is updated and agreed by the Audit Committee prior to the start of each financial year. This is designed to provide reasonable, but not absolute assurance that the systems of internal control, governance and risk management are adequate to contain risks within acceptable limits. The plan may be flexed during the year, to take account of new/emerging risks/changing business priorities, following Audit Committee approval.

Reporting for each completed assurance assignment includes an assurance opinion over the adequacy and effectiveness of the system of governance, risk management and control for the assignment scope areas reviewed.

Internal audit assurance engagements may include evaluating:

- The design effectiveness of internal controls to appropriately manage risks related to achievement of the Group's strategic objectives;
- The effectiveness of operations against established goals and objectives;
- The economical, efficient and sustainable use of resources;
- Compliance with applicable policies, procedures, laws and regulations, and contracts;
- Safeguards against losses, including those arising from fraud, irregularity or corruption; and
- The integrity and reliability of information and data.

The nature and scope of advisory / consulting services may be agreed with the party requesting the service, provided the internal audit function does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management.

The nature of these services could include:

- Formal consulting engagements planned and subject to written agreement;
- Informal consulting engagements for routine activities such as participation on limited-life projects, ad-hoc meetings and information exchange;
- Special consulting engagements such as participation on a project team to introduce new systems or processes; and
- Emergency consulting engagements such as participation on a team established for recovery or maintenance of operations after a disaster or extraordinary business event.

Before undertaking any advisory / consulting work, the Head of Internal Audit will assess whether Internal Audit has the appropriate resource, in terms of both capacity and capability, and that the proposed work represents an opportunity for Internal Audit to add value. Also, ensuring that it will not compromise independence, for example, by representing management in a decision-making role.

The Audit Committee will be informed of any significant consulting assignments not already included in the audit plan, with updates included as part of Internal Audit Progress Reports. Any evidence gathered in the course of consultancy provision will contribute to the Head of Internal Audit's annual assurance opinion.

An annual assurance opinion is provided on the overall adequacy and effectiveness of the Group's framework of governance, risk management and control. This is based on audit findings from the current year assurance work programme, advisory activity, progress in addressing current and prior year audit recommendations and Internal Audit's assessment of the corporate governance and risk management frameworks. Results of other relevant independent third-party reviews are also considered as appropriate. The annual assurance paper also includes confirmation whether Internal Audit agrees with the Group's latest reported 'as is' position against the risk appetite levels.

8. RELATIONSHIP WITH OTHER ASSURANCE PROVIDERS

In setting and delivering the assurance programme covered in the Internal Audit Plan, Internal Audit will:

- Liaise with the Group's external auditors to ensure that there is effective co-ordination of work, ensuring that they can place reliance on work completed by Internal Audit, and to avoid any unnecessary duplication of work, as relevant;
- Take into consideration the work of second line of defence compliance functions and other assurance providers, assessing whether sufficient reliance can be placed on the work and co-ordinating work as appropriate. To support this, the internal audit function will periodically complete assurance mapping across the corporate threats; and
- Liaise with the Risk Management team to assist to ensure that results of Internal Audits are reflected appropriately in risk assessments, and that Internal Audit is aware of any new emerging risks being escalated, as relevant.

9. ROLE IN FRAUD RELATED / INVESTIGATION WORK

In accordance with the Fraud Policy and Response Plan, the Head of Internal Audit will be informed of all suspected / actual frauds or whistle-blowing reports by the Corporate Governance team via the Initial Confidential Enquiry (ICE) reporting. Group responsibility for reporting and co-ordination of fraud /

suspected fraud / whistle-blowing incidences resides with the Head of Corporate Governance.

The Head of Internal Audit may provide advice, as appropriate, to those charged with undertaking related investigations. Depending on the nature of the case, the Head of Internal Audit may be appointed by the Director of Finance, Regulation & Commercial to lead the investigation, or to provide specific support to investigations.

Where control improvement related recommendations / actions arise from fraud / suspected fraud / whistle-blowing reports, independent follow up on implementation may be performed by Internal Audit for confirmation to Audit Committee.

10. ENQUIRIES

Enquiries about this policy should be addressed to Nicola Brennan, Head of Internal Audit:

Email: nicola.brennan@niwater.com

For further information visit the Internal Audit homepage on Source at: <http://intranet.water.nigov.net/internalaudit.aspx>

11. REVIEW OF THIS CHARTER

This policy / Charter will be reviewed annually, or earlier in the event of any material changes to professional standards or Internal Audit operations.