



AUDIT COMMITTEE

TERMS OF REFERENCE FOR 2013/14

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AUDIT COMMITTEE

TERMS OF REFERENCE FOR 2013/14

Terms of Reference

Reference to the “Company” shall mean Northern Ireland Water Limited (NIW)

Reference to the “Committee” shall mean Audit Committee

Reference to the “Board” shall mean the full Board of Directors of the Company

Reference to an “Executive Director” shall mean an Executive Director of the Company

Reference to a “Non-Executive Director” shall mean a Non-Executive Director of the Company

Reference to the “Chair” shall mean the person who chairs the Committee meeting.

1. Authority

- 1.1 Subject to any restrictions imposed by law, the Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties.
- 1.2 The Committee shall be entitled to call any employee of the Company to be present at a meeting of the Committee as and when required.
- 1.3 The Committee is authorised to obtain, at the Company’s expense and after consultation with the Chief Executive and Department for Regional Development (DRD), outside legal or other professional advice on any matters within its terms of reference.
- 1.4 The Committee shall be entitled to sub-delegate all or any of the powers and authorities delegated to it as they feel fit.

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- 1.5 The Committee is authorised to establish procedures for the receipt, retention and treatment of complaints and NI Water’s Whistleblowing policy and arrangements by which employees and third parties may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Committee’s objective is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

2. Organisation

Membership

- 2.1 The Board shall nominate Committee members and the Chair of the Audit Committee, who shall be an independent Director. In the absence of the Committee Chairman and any appointed deputy, the remaining members present shall elect one of the non-executive directors to chair the meeting. The Board Chair shall not chair the Audit Committee meeting at any point in time. The Chair shall not chair the Committee when it is dealing with the matter of succession to the Chair.
- 2.2 The Committee shall comprise at least 2 independent non-executive Directors of NIW. The Chair of the Board may be a member of the Committee (UK Corporate Governance Code Section C3.1)
- 2.3 A quorum of any meeting shall be 2 members.
- 2.4 Each member should have skills and experience appropriate to the operation of NIW’s business.
- 2.5 Each member shall be financially literate. At least one member must have recent or relevant financial experience.

2.6 Appointments to the Committee shall be for a period of up to three years which may be extended for a further three year period subject to Board approval.

2.7 The Company Secretary or his nominee shall act as the Secretary of the Committee.

Meetings

2.8 Only Committee members are entitled to attend meetings. The Committee may invite such other persons (e.g. the Chief Executive, Director of Finance and Regulation, Head of Corporate Governance, Head of Internal Audit and the External auditor) to its meetings, as deemed necessary.

2.9 Pursuant to the Management Statement and Financial Memorandum (MSFM), the Director of the Shareholder Unit will be represented at the meetings of the Committee.

2.10 The internal and external auditors should be invited to make presentations to the Committee as appropriate.

2.11 Meetings shall be held not less than 4 times a year and should correspond with the financial reporting cycle.

2.12 Special meetings may be convened as required. The Secretary will convene a meeting on receipt of a request by the internal or external auditors.

2.13 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the Committee, and any other person required to attend no fewer than 5 working days prior to the date of the Meeting.

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- 2.14 The Secretary shall circulate the agreed minutes of meetings to members of the Board and members of the Committee. Where appropriate the Secretary shall circulate the agreed minutes of particular meetings to the Head of Internal Audit and to the External auditor.
- 2.15 As a minimum, the Chair of the Committee shall attend the Board meeting at which the financial statements are approved.
- 2.16 Members of the Committee should endeavour to attend every meeting of the Committee.
- 2.17 The Chair of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflict of interest and arrange to minute them accordingly. This shall be a standing item on each agenda.
- 2.18 The Committee will meet with the External auditor (at least once a year) without management present.
- 2.19 The Chairman of the Audit Committee should be present at the annual meeting with the shareholder for the presentation of the final accounts and to answer any questions, through the Chairman of the Board, on the report of the Audit Committee's activities and matters within the Audit Committee's responsibilities.

3. Overall Purpose and Objectives

- 3.1 The Committee is appointed by the Board of Directors to assist the Board in discharging its oversight responsibilities of NIW. The Committee will oversee the financial reporting process to ensure the balance, transparency and integrity of published financial information. The Committee will also review:-

- (i) The effectiveness of NIW's internal control;

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- (ii) The adequacy of the internal and external audit function and their appointments;
 - (iii) The processes for monitoring compliance with laws and regulations affecting financial reporting; and,
 - (iv) Business ethics and the code of business conduct.

3.2 In performing its duties, the Committee will maintain effective working relationships with the Board of Directors, management, and external and internal auditors. To perform his or her role effectively, each committee member will be required to develop and maintain his or her knowledge and skills, including an understanding of the Committee's roles and responsibilities.

4. Roles and Responsibilities

Internal Control

The Committee will:-

- 4.1 Understand the internal controls systems implemented by management for the approval of transactions and the recording and processing of financial data.
- 4.2 Understand the controls and processes implemented by management to ensure that the financial statements derived from the underlying financial systems comply with relevant standards and requirements, and are subject to appropriate management review.
- 4.3 Overall management and evaluation of the effectiveness of the system of internal control and risk management. It will monitor the implementation of recommendations made by internal and external auditors to ensure that they have been successfully implemented by management.

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- 4.4 Consider how management is held to account for the security of computer systems and applications, and the contingency plans which are in place for processing financial information in the event of a systems breakdown, or to protect against computer fraud or misuse.
- 4.6 Review the overall effectiveness of NIW's Fraud Prevention Policy and Fraud Response Plan including any actual instances or allegations of bribery, reviewing quarterly reports for progress and satisfactory completion of investigations.

Financial Reporting

The Committee will:-

- 4.7 Gain an understanding of the current areas of greatest financial risk and how these are being managed.
- 4.8 Monitor the integrity of the financial statements of the company, review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on financial reports and performance.
- 4.9 Oversee the periodic financial reporting process implemented by management and review the principal statements, annual financial statements, regulatory accounts and reports and preliminary announcements prior to their release.
- 4.10 Meet with management and the external auditors to review the financial statements, the key accounting policies and judgements, and the results of audits.
- 4.11 Ensure that significant adjustments, unadjusted differences, disagreements with management and critical accounting policies and practices are discussed with the external auditor.

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- 4.12 Review the Annual Report before its release and consider whether the information is understandable and consistent with members' knowledge about the Company and its operations, and that it lacks bias.

Compliance

The Committee will:-

- 4.13 Review the effectiveness of the system for monitoring compliance with all relevant laws and regulations and compliance with the principles of Managing Public Money Northern Ireland (MPMNI).
- 4.14 Obtain regular updates from management and the Company's legal counsel regarding compliance matters that may have a material impact on the Company's financial statements or compliance with policies.
- 4.15 Review the findings of any examinations by regulatory bodies.
- 4.16 Review compliance with the Company's Code of Ethics.
- 4.17 Review the overall assurance provided by the evidence-based Mid-Year and Year-End Assurance Statements and the consistency of these statements together with other evidence provided, including the Risk Committee report on the effectiveness of the risk management systems and associated controls, in the issue of the Statement on Internal Control (SIC).

5. Working with Auditors

External Audit

The Committee will:-

- 5.1 Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements and any

potential conflicts of interest. This includes the consideration of the audit firm's annual transparency reports, where available.

- 5.2 Review, on an annual basis, the performance of the external auditors and make recommendations to the Board for the appointment, reappointment or termination of the appointment of the external auditors and to approve the remuneration and terms of engagement of the external auditor.
- 5.3 Provide an explanation in the Audit Committee's section of the Annual Report as to how the Committee reached its recommendation to the Board on the appointment, reappointment or removal of the external auditors. This explanation should normally include supporting information on tendering frequency, the tenure of the incumbent auditor, and any contractual obligations that acted to restrict the Audit Committee's choice of external auditor. If the Board does not accept the Committee's recommendation, this will be included in the annual report, and in any papers recommending appointment or re-appointment, with a statement from the Committee explaining the recommendation and the reasons why the Board has taken a different position.
- 5.4 Consider the need to include the risk of the withdrawal of the external auditor from the market as part of the Committee's risk evaluation and planning.
- 5.5 Review the external auditors' proposed audit scope and other regularity and regulatory requirements.
- 5.6 Discuss with the external auditor any audit problems encountered in the normal course of audit work, including any restriction on audit scope or access to information.

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- 5.7 Ensure that significant findings and recommendations made by the external auditors together with Management's proposed response, are received on time, discussed and appropriately acted upon.
- 5.8 Discuss with the external auditor the appropriateness of the accounting policies applied in the Company's financial reports and whether they are considered to be aggressive, balanced or conservative.
- 5.9 Review policies for the provision of non-audit services by the external auditor, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken. Where applicable the framework for pre-approval of audit and non-audit services.
- 5.10 To review the adequacy of the information included in the annual report in relation to the provision of non-audit services, and that auditor objectivity and independence is safeguarded.
- 5.11 Ensure that the Company has appropriate policies regarding the hiring of audit firm personnel for senior positions after they have left the audit firm.

Internal Audit

The Committee will:-

- 5.12 Review the activities, resources and organisational structure of the NIW Internal Audit function and ensure that no unjustified restrictions or limitations are made.
- 5.13 Review the effectiveness of the Internal Audit functions and ensure that it has appropriate standing within the Company.

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- 5.14 Receive a report on the results of the internal auditors' work on a periodic basis and the delivery of the Internal Audit Value Charter and Key Performance Indicators (KPI).
 - 5.15 Meet separately with the Head of Internal Audit to discuss any matters that the Committee believe should be discussed privately.
 - 5.16 Ensure that significant findings and recommendations made by internal auditors and management's proposed response are discussed and appropriately acted upon.
 - 5.17 Review the proposed Internal Audit Plan for the coming year and ensure that it addresses the key areas of risk, and that there is appropriate co-ordination with the work being undertaken by the external auditor.
 - 5.18 Monitor and assess the role and effectiveness of the internal audit function that is in compliance with the Government Internal Audit Standard (GIAS) and consistent with the International Standards for the Professional Practice of Internal Auditing.
 - 5.19 Assess safeguards in place to protect the independence of the internal audit function and the Head of Internal Audit.
 - 5.20 Appoint or dismiss the head of internal audit.

6. Reporting Responsibilities

The Committee will:-

- 6.1 Regularly update the Board on the Committee activities and make appropriate recommendations.

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- 6.2 Ensure the Board is aware of matters that may significantly impact on the financial condition or affairs of the Company.
 - 6.3 Prepare any reports required by law or listing rules or requested by the Board, e.g. a report on the Committee's activities and duties should be included in the section on Corporate Governance in the annual report.
 - 6.4 Review reports for external reporting to Shareholders regarding Shareholders agreements and financial delegations.

7. Evaluating Performance

The Committee will:-

- 7.1 Evaluate the Committee's own performance, both of individual members and collectively, on a regular basis.
- 7.2 Assess the achievement of the duties specified in this Terms of Reference and provide an annual report of the findings to the Board.
- 7.3 Receive and review Business Conduct Reports.

8. Review of Audit Committee's Terms of Reference

The Committee will:-

- 8.1 Review these Terms of Reference annually and discuss any proposed changes with the Board.
- 8.2 Ensure that the revised Terms of Reference are approved or re-approved by the Board.