



# Thames Water Utilities Limited

## Audit, Risk & Reporting Committee Terms of Reference

June 2023

# Audit, Risk & Reporting Committee

## Terms of Reference

These Terms of Reference set out the specific responsibilities delegated by the Board to the Audit, Risk & Reporting Committee (the “Committee”) of Thames Water Utilities Limited (the “Company”) and detail the manner in which the Committee will operate.

### 1. Overview

1.1. The objective of the Committee is the provision of oversight and effective governance over:

- The appropriateness of the financial and regulatory reporting of the Company and its corporate group (together, the “Group”), including the adequacy of related disclosures
- The Group’s risk management system and monitoring of principal risks
- The Group’s systems of internal controls
- The Group’s compliance, whistle-blowing and fraud prevention activities
- The performance of both the internal audit function and external auditor

### 2. Membership

2.1. The Committee shall comprise at least three independent non-executive directors and up to two non-executive directors. The Chairman of the board shall not be a member of the Committee.

2.2. At least one member of the Committee shall have recent and relevant financial experience.

2.3. Members of the Committee shall be appointed by the Board, on recommendation of the Nomination Committee.

2.4. The Board shall appoint the Committee Chairman who must be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

2.5. The Committee may invite any persons (including the CEO, CFO and external advisers) to attend any meetings or parts of meetings.

2.6. Each member of the Committee shall be entitled to one vote.

2.7. The Chairman of the Committee shall not be entitled to a second or casting vote in the case of an equality of votes on any matter.

### 3. Secretary

3.1. The Company Secretary or their nominee shall act as the Secretary of the Committee.

3.2. The Secretary shall ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to all such matters.

### 4. Quorum

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- 4.1. The quorum for Committee meetings shall be three members, one of whom must be an independent non-executive director.

## 5. Meetings

- 5.1. The Committee shall meet at least 4 times a year.
- 5.2. Meetings of the Committee shall be convened by the Secretary of the Committee at the request of any of its members.
- 5.3. 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 in electronic form to each member of the Committee, and any other person required to attend, no later than five working days before the date of the meeting. Relevant supporting papers shall be sent to Committee members and other attendees at the same time.
- 5.4. The attendance of any non-Committee person at the meeting shall be at the invitation of the Committee Chairman.

## 6. Minutes of meetings

- 6.1. The secretary shall minute the proceedings and decisions of all committee meetings, including recording the names of those present and in attendance and the existence of any conflicts of interest.

Draft minutes of committee meetings shall be agreed with the Committee Chairman and then circulated to all members of the committee and, once agreed, to all members of the Board.

## 7. Annual General Meeting

- 7.1. The Chairman of the Committee shall attend the Annual General Meeting, in the event that such a meeting is held, and be prepared to respond to any shareholder questions on the Committee's activities

## 8. Duties

### Financial and regulatory reporting

- 8.1. The Committee shall monitor the integrity of the financial statements including the Company's annual and half-year reports and certain regulatory returns, reviewing and reporting to the Board on the principal accounting judgements, estimates and other matters which they contain, having regard to matters communicated to it by the external auditor.
- 8.2. The Committee shall review and challenge where necessary:
  - the quality and appropriateness of accounting policies and practices
  - the methods used to account for significant or unusual transactions where different approaches are possible

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- whether the Company has adopted appropriate accounting policies and made appropriate estimates and judgements
  - the clarity and completeness of disclosure in the Company's financial and regulatory reports and the context in which the statements are made
  - all material information presented with financial statements, including the Strategic Report and the Governance Report relating to the audit and to risk management
  - significant implemented adjustments resulting from the audit
  - misstatements reported to the Committee by the external auditor that have not been corrected and management's explanations as to why they have not been adjusted
  - possible impairments of the Group's assets
  - the basis for the going-concern assumption, identifying any significant judgements or material uncertainties to the Company's ability to continue to operate on the basis over a period of at least twelve months from the date of approval of the financial statements
  - the quality and appropriateness of assurance undertaken on ESG related disclosure
  - the impact of climate change has been adequately disclosed in the financial statements and that such disclosure is fair, balanced and understandable
- 8.3. When requested by the Board, the Committee shall advise on whether the Annual Report taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to access the Group's financial position and performance, business model and strategy; and,
- 8.4. The Committee shall review Company announcements that contain financial and annual performance commitment information, which require Board approval.

## 9. Risk Management

- 9.1. The Committee shall work together with the Board and other Board Committees to monitor and review the effectiveness of the Group's risk management system and advise on the relevant statement included in the Annual Report.
- 9.2. The Committee shall regularly:
- assess the Company's approach to determining the Company's overall risk appetite, tolerance and strategy
  - assess and evaluate the principal risks facing the Group in achieving its strategic objectives, including the management and mitigation of those risks
  - assess the emerging risks facing the Group
- 9.3. At least annually, the Committee shall review:
- the Company's risk transfer strategy for the sharing of risk with the insurance market
  - review and approve the Company's risk management policies (e.g., treasury policies, the Enterprise Risk Management Policy and the Honest & Ethical Behaviour Policy)

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9.4. The Committee shall advise the Board that the entity has a reasonable expectation of remaining viable over the longer term based on the assessment of the Company's financial position and principal risks, and review the viability statement included in the Annual Report.

### 10. Internal controls

10.1. The Committee shall work together with the Board and other Board Committees to monitor and review the effectiveness of the Group's system of internal controls and advise on the relevant statement included in the Annual Report.

10.2. The Committee shall review:

- the adequacy and effectiveness of the systems of internal control that identify, assess, manage and monitor financial and other non-financial performance measure risks
- consider management's response to any material external or internal audit recommendations

### 11. Compliance, whistle-blowing and fraud

11.1. The Committee shall review and approve changes to the Company's Code of Conduct (the "Code") annually and secure reasonable assurance as to the appropriate implementation and operation of the Code.

11.2. The Committee shall review the adequacy of:

- the Company's whistle-blowing arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoings in financial or regularly reporting or other matters. The Committee shall ensure that these arrangements allow proportionate follow up action
- the Company's systems and controls for the prevention of bribery and receive reports on non-compliance
- the Company's procedures for detecting fraud

11.3. The Committee shall review regular reports from the Director of Risk, Audit and Assurance and keep under review the scope and effectiveness of the Company's Business Integrity & Investigation function.

### 12. Internal audit

12.1. The Committee shall approve the appointment or dismissal of the Director of Risk, Audit and Assurance.

12.2. The Committee shall ensure that the Company's internal audit function has unrestricted scope, adequate resources and access to information to enable it to fulfil its mandate.

12.3. The Committee shall:

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- review and approve the annual internal audit programme to ensure it is appropriate for the current needs of the Group
- receive regular reports on the work carried out by the internal audit function
- monitor and review the effectiveness of the internal audit function's work
- consider whether an independent, third party review of the internal audit processes is appropriate

12.4. Annually, the Committee shall review the internal audit charter.

### 13. External audit

13.1. The Committee shall make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor, including the appointment of the lead external audit partner.

13.2. The Committee shall oversee the Company's relationship with the external auditor, which shall report directly to the Committee, including (but not limited to):

- approval of the nature and scope of the external audit
- approval of the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team
- approval of the external auditor's remuneration, including fees for audit and non-audit services

13.3. The Committee shall assess annually the external auditor's independence and objectivity. This assessment will:

- review the Group's relationship with the external auditor as a whole, including threats to the auditor's independence and the safeguards applied to mitigate those threats through the provision of any non-audit services
- review the external auditor's quality control procedures, and the experience and qualifications of the senior members of the external audit team (including rotational procedures)
- require the external auditor to confirm their independence, compliance with relevant UK law, regulation, the FRC Ethical Standard, and other professional requirements. The external auditor should also report to the Committee how their internal processes work to ensure this

13.4. The Committee shall review:

- the activities, findings, conclusions and recommendations of the external audit, non-financial report or interim review report
- the management letter and management's response to the external auditor's findings and recommendations
- any representation letter(s) requested by the external auditor before they are signed by management

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- the effectiveness of the audit or review process, including an assessment of the quality of the audit / review, the handling of principal judgements by the external auditor, and the auditor's response to questions from the Committee

13.5. The Committee shall resolve any disagreements between management and the external auditor regarding financial reporting.

13.6. The Committee shall develop and approve the policy for permitted non-audit services (taking into account relevant ethical standards and guidance) that potentially could be undertaken by the external auditor and monitor compliance with this policy.

## 14. Reporting

14.1. The Committee shall report, through the Committee Chairman, on its activities and how it has discharged its responsibilities to the Board after each committee meeting.

14.2. The Committee shall produce a report to be included in the Company's Annual Report on its activities.

## 15. Authority and legal advice

The Committee is authorised to:

15.1. Have access to sufficient resources in order to carry out its duties, including access to the company secretariat for advice and assistance as required.

15.2. Obtain, at the company's expense, independent legal, accounting or other professional advice on any matter if it believes it necessary to do so.

15.3. Undertake any other duties as requested by the Board from time to time and to investigate any activities it deems necessary to carry out its duties and to seek information from any employee.

15.4. Give due consideration to all relevant laws and regulations, the provisions of the UK Corporate Governance Code and published guidance, the requirements of the FCA's Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules, as appropriate.

## 16. Terms of reference and performance

The Committee is authorised to:

16.1. 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.

16.2. Ensure that a periodic evaluation of the committee's performance is carried out.

16.3. Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.

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### Version control

Version	Date Approved	Comments
1.0	March 2019	Approved by TWUL board
2.0	March 2022	Approved by TWUL board (formatted onto new template. Minor amendments).
3.0	June 2023	Approved by TWUL board

