



Audit and Risk

Purpose

To assist the Board of Directors in fulfilling its oversight responsibilities for the financial 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.

Objectives

In fulfilling its purpose, the Committee's objectives are to:

- Review the integrity and quality of the financial information to be provided to the shareholders and the public;
- Review the systems and processes that management has in place to identify and manage areas of significant risk, including financial risk;
- Review the effectiveness of both the internal audit function and the Corporation's external auditors; and
- Oversee Hunter Water's fraud and corruption control policies and plans.

Duties and Responsibilities

In order to fulfil its objectives, the Committee will:

Financial Reporting

- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgemental areas, and recent professional and regulatory pronouncements, and understand their effect on the financial report.
- Review with management and the external auditors the results of the audit, including any difficulties encountered.
- Review the annual financial report and consider whether it is complete, consistent with information known to Audit and Risk Committee members and reflects appropriate accounting principles.
- Review other sections of the annual report before release and consider the accuracy and completeness of the information.
- Review with management and the external auditors all matters required to be communicated to the Committee under the Australian Auditing Standards.

- Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.

Internal Control

- Consider the effectiveness of Hunter Water's internal control system, including information technology security and control.
- Understand the scope of internal and external auditor's review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

Risk Management

- Review Hunter Water's risk profile to ensure that material business risks are dealt with appropriately.
- Ensure that there is regular review and update of the risk profile.
- Ensure that the material business risks have been dealt with in a timely manner to mitigate exposure to Hunter Water.

External Audit

- Review the external auditor's proposed audit scope and approach, including coordination of audit effort with Audit and Risk Management.
- Review the performance of the external auditors and discuss any concerns with audit management and, if necessary, the Audit Office of NSW.
- Invite the external auditor to Committee Meetings to, at least, review the audit plan, discuss audit results and consider the implications of external audit findings for the control environment.
- Provide the opportunity for Committee Members to meet with the external auditors without management being present at least once per annum.
- Review and confirm the external auditor's independence by obtaining statements from the auditors on relationships between the auditors and Hunter Water, including non-audit activities, and discussing the relationships with the auditors.

Internal Audit

- Review with management and the Manager Audit and Risk Management the charter, activities, staffing and organisational structure of the internal audit function.
- Review and approve the annual audit plan and all major changes to the plan.
- Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement or dismissal of the Manager Audit and Risk Management.
- At least once per year, review the performance of the Manager Audit and Risk Management.
- Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing.
- Ensure that the annual internal audit plan is linked with and covers the material business risks.

- Meet at least annually separately with Audit and Risk Management personnel to discuss any matters that the Audit and Risk Committee or Audit and Risk Management staff believe should be discussed privately.

Compliance

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up of any instances of non-compliance.
- Review the findings of any examinations by regulatory agencies, and any auditor observations.
- Review the process for communicating the code of conduct to Hunter Water staff, and for monitoring compliance with the code.
- Obtain regular updates from management about compliance matters.

Fraud

- Ascertaining whether fraud risks have been included in Hunter Water's risk profile.
- Overseeing Hunter Water's Fraud and Corruption Prevention and Detection Framework and monitoring actual and suspected instances of fraud, corruption, maladministration and serious or substantial waste.
- Overseeing management's efforts to create and maintain a strong internal control environment, including the design and implementation of anti-fraud strategies and programmes.

Reporting Responsibilities

- Report regularly to the Board about Audit and Risk Committee activities, issues, and related recommendations, including provision of the Committee's Minutes to the Board.
- Provide open communication between Audit and Risk Management, the external auditors and the Board.
- Report annually to the Shareholders, describing the Committee's composition, responsibilities and how they were discharged, and any other information required by legislation/regulation.

Other Responsibilities

- Perform other activities related to this charter as requested by the Board.
- Institute and oversee special investigations as needed.
- Review and assess the adequacy of this Charter annually, requesting Board approval for proposed changes.
- Confirm annually that all responsibilities outlined in the Charter have been carried out.
- Evaluate the Committee's and individual members' performance regularly.

Authority

The Audit and Risk Committee has the authority to:-

- Oversee the work of the external auditor.
- Resolve any disagreements between management and the auditor on financial reporting.

- Retain independent counsel, accountants or others to advise the Committee or assist in the conduct of an investigation.
- Meet with Corporation officers, external auditors, or outside counsel, as necessary.
- Seek any information it requires from employees – all of whom are directed to cooperate with the committee’s request – or external parties.

Composition

The Audit and Risk Committee shall consist of at least 4 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

The Board’s Corporate Governance Committee shall appoint an independent Chairperson to the Committee, who is not Chair of the Board.

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.

Membership of the Committee

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 Committees and the experience and skills of Board Members.

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 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 Fraud 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 Audit and Risk Management Group and Hunter Water’s Finance Manager. 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.

Meetings

The Committee will hold at least 4 regular Meetings per year and such additional Meetings as the Chairperson shall decide is necessary for the Committee to fulfil its duties. The Committee’s Charter

shall be reviewed annually and updated as required. In addition, the Chairperson is required to call a Meeting of the Committee if requested to do so by any Committee Member, the Managing Director, the Company Secretary, the General Manager Finance and Corporate Services, the Manager Finance, the Manager Audit and Risk Management 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 as required. Representatives of both internal and external audit will be invited to attend relevant parts of each Meeting. The Chairperson 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 Chairperson at the subsequent Meeting. Audit and Risk Management will provide the Committee with administrative support, with a member of the group fulfilling the function of Committee Secretary.

Quorum

A quorum shall consist of 2 Committee Members.

Authority

In carrying out its duties the Committee shall have the authority to discuss directly with management, internal auditors or consultants any issue within its remit and to request reports, explanations and information on any of the activities or procedures of the corporation.

The Committee is authorised by the Board to obtain outside legal or other professional advice if it considers this necessary at the cost of the corporation.

Conflict of Interest

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

Reviewed and endorsed by Audit and Risk Committee: - August 2008

Next Review Date: - June 2009

Approved by the Board on: - 25 June 2009

ⁱ THE ASX Best Practice Principles provide the following guidelines for determining the independent status of a director:-

When determining the independent status of a director the board should consider whether the director: 1. is a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company 2. is employed, or has previously been employed in an executive capacity by the company or another group member, and there has not been a period of at least three years between ceasing such employment and serving on the board 3. has within the last three years been a principal of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided 4. is a material supplier or customer of the company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer 5. has a material contractual relationship with the company or another group member other than as a director.
(From Corporate Governance Principles and Recommendations 2nd Edition, August 2007, p17).

ⁱⁱ Financially literate in this instance is defined as able to read and understand financial statements.