



CHARTER

AUDIT AND RISK COMMITTEE

1. Purpose

The Audit and Risk Committee (Committee) is a committee of the board of directors (Board) of Hunter Water Corporation (Hunter Water) which has been established pursuant to the NSW Treasury Commercial Policy Framework: *TPP17-10 Guidelines for Boards of Government Businesses* (Framework) the *Internal Audit and Risk Management Policy for the NSW Public Sector*.

This Charter sets out the Committee's objectives, authority, membership, appointment and term, duties and responsibilities, reporting and administrative arrangements.

2. Objectives

The objective of the Committee is to provide independent assistance to the Board by monitoring, reviewing and providing advice about Hunter Water's financial governance processes, financial and non-financial risk management and control frameworks, and its external accountability obligations.

3. Authority

The Board authorises the Committee, within the scope of its role and responsibilities, to:

- a. obtain any information it needs from any employee and/or external party (subject to their legal obligation to protect information)
- b. discuss any matters with the external auditor, or other external parties (subject to confidentiality considerations)
- c. request the attendance of any employee, including the Board, at committee meetings
- d. obtain external legal or other professional advice, as considered necessary to meet its responsibilities. The payment of costs for that advice by Hunter Water is subject to the prior approval of the Managing Director
- e. resolve any disagreements between management and the external financial auditor regarding financial reporting
- f. meet with company officers, internal auditors, external auditors, or outside counsel, as necessary.

4. Membership, appointment and term

The Committee will consist of a minimum of three and a maximum of five members¹, appointed by the Board's Nominations and Governance Committee. The Nominations and Governance Committee will appoint a non-executive director as chair to the Committee, and who is not Chair of the Board. The chair is counted as one member of the Committee.

Membership will be re-assessed annually taking into consideration the requirements of all Board sub-committees and the experience and skills of directors. Members will be appointed for an initial period between three and five years, after which they will be eligible for extension or re-appointment for a further

¹ Inclusive of the Chair



term(s) subject to a formal review of their performance (noting that the maximum total term on the Committee will not exceed eight years).

The chair must be appointed for one term only, for a minimum period of three years and a maximum period of five years. The term of appointment for the chair can be extended but cannot exceed five years as a chair of the Audit and Risk Committee.

Only non-executive directors are eligible for membership and a majority of Committee members will be independent directors.

5. Duties and responsibilities

The Committee has no executive powers.

The Committee is directly responsible and accountable to the Board for the exercise of its responsibilities. In carrying out its responsibilities, the Committee must at all times recognise that primary responsibility for management of Hunter Water rests with the Board.

The responsibilities of the Committee may be revised or expanded in consultation with, or as requested by, the Board from time to time.

The Committee's responsibilities are to:

5.1. Risk management

- i. review whether management has in place a current and appropriate risk management framework that is consistent with AS/NZS ISO 31000:2018.
- ii. assess and advise on the maturity of Hunter Water's risk management framework and risk culture.
- iii. seek assurance from management and Internal Audit that risk management processes are operating effectively.
- iv. seek assurance from management and Internal Audit as to the adequacy and effectiveness of internal controls.
- v. review risk reports and provide advice to the Managing Director and Board.
- vi. review whether a sound and effective approach has been followed in developing risk management plans for major projects or undertakings.
- vii. review the impact of Hunter Water's risk management on its control environment and insurance arrangements.
- viii. review Hunter Water's fraud and corruption control plan and be satisfied that Hunter Water has appropriate processes and systems in place to capture and effectively investigate fraud and corruption related information.
- ix. review whether a sound and effective approach has been followed in establishing Hunter Water's business continuity planning arrangements, including whether disaster recovery plans have been tested periodically.
- x. review whether Hunter Water has any material exposure to environmental or social risks, including cyber security risk and climate and nature related risk, and, if it does, how it manages or intends to manage those risks.
- xi. seek assurance that Hunter Water has processes in place to identify and manage risks arising from climate change, including physical, transitional and liability risks.
- xii. seek assurance that Hunter Water has processes in place to identify and address emerging risks including but not limited to those of cyber security risks and climate and nature related risks.



5.2. Control framework

- i. review whether management's approach to maintaining an effective internal control framework, including over external parties such as contractors and advisors, is sound and effective.
- ii. review whether management has in place relevant policies, and that these are periodically reviewed and updated.
- iii. determine whether the appropriate processes are in place to assess, at least once a year, whether laws, regulations, policies and procedures are complied with.
- iv. review whether appropriate policies and procedures are in place for the management and exercise of delegations.
- v. consider how management identifies any required changes to the design or implementation of internal controls.
- vi. review whether management has taken steps to embed a culture which is committed to ethical and lawful behaviour.

5.3. External accountability

- i. assess the policies and procedures for management review and consideration of the financial position and performance of Hunter Water including the frequency and nature of that review (including the approach taken to addressing variances and budget risks).
- ii. review procedures around early close and year-end.
- iii. review the financial statements and provide advice to the Board (including whether appropriate action has been taken in response to audit recommendations and adjustments), and recommend their signing by the Board.
- iv. satisfy itself that the financial statements are supported by appropriate management signoff on the statements.
- v. review the Chief Financial Officer Letter of Certification and supporting documentation (consistent with NSW Treasury Policy and Guidelines Paper Certifying the Effectiveness of Internal Controls over Financial Information (TPP 17-06).
- vi. review cash management policies and procedures.
- vii. review the processes in place designed to ensure that financial information included in Hunter Water's annual report is consistent with the signed financial statements.
- viii. Review, provide advice and recommend to the Board, any climate and/or nature related financial disclosures reporting and/or other public disclosures by Hunter Water, including in Hunter Water's annual report.
- ix. satisfy itself that Hunter Water has a performance management framework that is linked to organisational objectives and outcomes.

5.4. Compliance and applicable laws and regulations

- i. determine whether management has appropriately considered legal and compliance risks as part of Hunter Water's risk assessment and management arrangements.
- ii. review the effectiveness of the system for monitoring Hunter Water's compliance with applicable laws and regulations, and associated government policies.
- iii. seek assurance that the appropriate exercise of delegation is monitored and reviewed.
- iv. seek assurance that changes in key laws, regulations, internal policies and Accounting Standards affecting Hunter Water's operations are being monitored at least once a year, and are appropriately addressed.



- v. review Hunter Water's process for communicating the code of conduct to staff and seek assurance as to compliance with the code.
- vi. review policies and processes for identifying, analysing and addressing complaints.
- vii. review whether management has taken steps to embed a culture which is committed to ethical and lawful behaviour.

5.5. Internal audit

- i. act as a forum for communication between the Board, senior management and internal and external audit.
- ii. review and provide advice to the Board on the internal audit policies and procedures.
- iii. review the risk-based audit methodology.
- iv. review the internal audit coverage and annual work plan, ensure the plan is based on Hunter Water's risk management plan, and recommend approval of the plan by the Board.
- v. advise the Board on the adequacy of internal audit resources to carry out its responsibilities, including completion of the approved internal audit plan.
- vi. oversee the coordination of audit programs conducted by internal and external audit and other review functions.
- vii. review audit findings and related recommendations that have been assessed as the most significant according to the risk the audit finding represents to Hunter Water if the recommendation(s) related to the finding are not implemented.
- viii. provide advice to the Board on significant issues identified in audit reports and action taken on these issues, including identification and dissemination of good practice.
- ix. monitor management's implementation of internal audit recommendations.
- x. review the internal audit charter to ensure appropriate organisational structures, authority, access and reporting arrangements are in place.
- xi. periodically review the performance of internal audit and the Group Manager Risk & Internal Audit as required.
- xii. provide advice to the Board on the results of any external assessments of the internal audit function.
- xiii. provide advice to the Board on whether the role of Group Manager Risk & Internal Audit as required should be a dedicated role within the Hunter Water.
- xiv. provide advice to the Board on the appointment or replacement of the Group Manager Risk & Internal Audit and recommend to the Board the appointment or replacement of external internal audit service providers (in the case of an outsourced or co-sourced internal audit function).
- xv. annually review internal audit's charter.
- xvi. assess the overall effectiveness and evaluate the performance of the Group Manager Risk & Internal Audit and the internal audit function.
- xvii. Committee Chair to contribute to the regular performance review of the Group Manager Risk & Internal Audit.

5.6. External audit

- i. act as a forum for communication between Hunter Water, senior management and internal and external audit.
- ii. provide input and feedback on the financial statement and performance audit coverage proposed by external audit and provide feedback on the audit services provided.



- iii. review all external plans and reports in respect of planned or completed audits and monitor management's implementation of audit recommendations.
- iv. provide advice to the Board on action taken on significant issues raised in relevant external audit reports and better practice guides.
- v. obtain an independent opinion from external audit management's:
- vi. technical compliance with accounting standards.
- vii. Proper application of the accounting principles.
- viii. Clarity in financial disclosure practices as used or proposed in Hunter Water's annual report.

5.7. Responsibilities of members

Members of the Committee are expected to understand and observe the requirements of the Internal Audit and Risk Management Policy. Members are also expected to:

- i. make themselves available as required to attend and participate in meetings
- ii. contribute the time needed to study and understand the papers provided
- iii. apply good analytical skills, objectively and good judgment
- iv. abide by the relevant ethical codes that apply to employment within the NSW public sector
- v. express opinions frankly, ask questions that go to the fundamental core of the issues and pursue independent lines of enquiry.

6. Reporting

The Committee will regularly, but at least once a year, report to the Board on its operation and activities during the year. The report should include:

- i. make themselves available as required to attend and participate in meetings
- ii. contribute the time needed to study and understand the papers provided
- iii. apply good analytical skills, objectivity and good judgement
- iv. abide by the relevant ethical codes that apply to employment within the NSW public sector
- v. express opinions frankly, ask questions that go to the fundamental core of the issue and pursue independent lines of enquiry.

The Committee may, at any time, report to the Board any other matter it deems of sufficient importance to do so. In addition, at any time an individual committee member may request a meeting with the Board.



6.1. Reporting Lines



7. Administrative arrangements

7.1. Meetings

The Committee will meet at least four times per year. A special meeting may be held to review Hunter Water's annual financial statements.

The Chair is required to call a meeting if requested to do so by the Board, another Committee member, the Managing Director, Company Secretary, Chief Financial Officer [Executive Manager Finance and Business Performance], Group Manager Risk & Internal Audit or external auditors.

A meeting plan, including meeting dates and agenda items, will be agreed by the Committee each year. The meeting plan will cover all of the Committee's responsibilities as detailed in this charter.

7.2. Attendance at meetings and quorums

A quorum requires two Committee members, two of whom must be independent members.

Meetings can be held in person, by telephone, video conference or a combination of these methods.

The Managing Director may attend the meetings of the Audit and Risk Committee. Committee members, if necessary, may have in-camera discussions. The Group Manager Risk & Internal Audit, external audit representatives and any other Hunter Water representatives may attend Committee meetings, except where the Committee members wish to have in-camera discussions. The Committee may also request the Chief Financial Officer [Executive Manager Finance and Business Performance] or other employees attend Committee meetings or participate for certain agenda items.

All attendees are responsible and accountable for maintaining the confidentiality of the information they receive during the course of these meetings.

The Committee will meet separately with both the internal and external auditors at least once a year.

7.3. Dispute resolution

Members of the Committee and Hunter Water's management should maintain an effective working relationship, and seek to resolve differences by way of open negotiation. However, in the event of a disagreement between the Committee and management, including the Board, the Chair may, as a last resort, refer the matter to NSW Treasury to be dealt with independently.



7.4. Committee Coordinator

A senior manager, nominated by the Managing Director and approved by the Chair of the Committee, will be the Committee Coordinator.

The Committee Coordinator, together with the Chair and/or the Managing Director, will set the agenda and distribute the business papers at least five days before each meeting, keep the meeting minutes and circulate these within one month of the meeting. Other management personnel may assist the Committee Coordinator in these tasks.

7.5. Conflicts of Interest

Once a year the Committee members will provide declarations to the Board stating they do not have any conflicts of interest that would preclude them from being members of the Committee.

Committee members must declare any conflicts of interest at the start of each meeting or before the discussion of the relevant agenda item or topic. Details of any conflicts of interest should be appropriately minuted.

Where members or observers at Committee meetings are deemed to have a real, or perceived, conflict of interest, the Chair (or a quorum of the Committee if the conflict of interest arises from the Chair) may excuse them from Committee deliberations on the issue where a conflict of interest exists.

7.6. Induction

New members will receive relevant information and briefings on their appointment to assist them to meet their Committee responsibilities.

7.7. Assessment arrangements

The Board, in consultation with the Chair of the Committee, 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 (unless otherwise determined by the Board) with appropriate input sought from the Board, the internal and external auditors, management and any other relevant stakeholders, as determined by the Board.

7.8. Review of the Charter

The Committee will review this Charter annually, and recommend any changes to the Board.



DOCUMENT INFORMATION

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