

## **AWS Audit Committee (the "Committee")**

### **TERMS OF REFERENCE**

#### **Purpose**

1. The purpose of the Committee is to assist the Boards of Anglian Water Services Limited ("AWS") and Anglian Water Group Limited ("AWG") to discharge effectively their duties and responsibilities in respect of AWS (the Company) relating to financial reporting of a statutory and regulatory nature, internal controls, risk management, and the application of appropriate accounting policies and practices. The Committee does not relieve the Boards of their responsibilities for these matters.

#### **Membership**

2. The Committee shall comprise at least three independent non-executive directors and shall include at least one member of the Remuneration Committee. The majority of the Committee shall comprise independent non-executive directors. The members of the Committee (including the Chairman) shall be appointed by the Board of AWS, on the recommendation of the Nomination Committee. The appointment of Committee members (including the Committee chairman) also requires the approval of the Board of AWG. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman of the Board, Chief Executive Officer, Managing Director Finance and Non-Regulated Business, other directors, the heads of risk, and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate.
3. The Committee as a whole shall have competence relevant to the sector in which the Company operates. At least one member of the Committee shall have recent and relevant financial experience with competence in accounting and/or auditing and other members shall have the requisite financial knowledge and experience to provide appropriate challenge. The Chairman of the Board shall not be a member of the Committee.
4. The internal and external auditors will be invited to attend all or part of meetings of the Committee, but will be absent from any discussions around their respective performance.
5. The AWS Board shall appoint the Committee Chairman in consultation with the Nomination Committee who shall be an independent non-executive director<sup>1</sup>. 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.

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<sup>1</sup> An independent non-executive director is defined in provision 10 of the *2018 UK Corporate Governance Code*

## **Secretary**

6. The Company Secretary, or his or her nominee, shall act as the Secretary of the Committee and will ensure that the committee receives information and papers a timely manner to enable full and proper consideration to be given to issues.

## **Quorum**

7. The quorum necessary for the transaction of business shall be 2 members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

## **Frequency of Meetings**

8. The Committee shall meet at least three times a year at appropriate times in the financial and regulatory reporting, and audit cycle and otherwise as required.
9. Outside of the formal meeting programme, the Committee Chairman, and to a lesser extent the other committee members, will maintain a dialogue with key individuals involved in AWS's governance, including the Chief Executive Officer, the Managing Director, Non-Regulatory Business and Finance, the external and internal audit lead partners,

## **Notice of Meetings**

10. Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members or at the request of external or internal auditor if either or both consider it necessary.
11. 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 to each member of the Committee, any other person required to attend no later than 3 working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.
12. Notices, agendas and supporting papers can be sent in electronic form where the recipient has agreed to receive documents in such a way.

## **Minutes of Meetings**

13. The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
14. The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

15. Minutes of Committee meetings shall be agreed with the Committee Chairman and circulated prior to the following meeting to all members of the Committee.

### **Duties**

16. The Committee should carry out the duties below for the Company, and the AWS Financing Group companies (Anglian Water Services Holdings Limited, Anglian Water Services UK Parent Co Limited and Anglian Water Services Financing plc) as a whole, as appropriate.

### **Financial Reporting**

17. The Committee shall monitor the integrity of the financial statements of the Company, including its annual and interim results, reviewing significant financial reporting issues and judgments which they contain. The Committee shall also review the Annual Performance Report, and significant financial returns to regulators.
18. The Committee shall specifically review the external auditor's significant issues and clearance reports for AWS in relation to the interim and preliminary results with particular emphasis on:
  - the major issues which arose during the audit review;
  - level of errors identified during the audit;
  - the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/group;
  - the methods used to account for significant or unusual transactions where different approaches are possible; and
  - whether the Company has followed appropriate accounting standards and made appropriate estimates and judgments.

### **Narrative reporting**

19. Where requested by the Board, the Committee should review the content of the Annual Integrated Report and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for stakeholders to assess AWS's performance, business model and strategy and whether it informs the Board's statement in the annual report on these matters.

### **Internal Controls and Risk Management Systems**

20. The Committee shall:
  - (i) keep under review AWS's internal financial controls systems that identify, assess, manage and monitor financial risks and other internal control and risk management systems; and

- (ii) review and approve the statements to be included in the annual report concerning internal control, risk management and the viability statement.

### **Compliance, whistleblowing and fraud**

21. The Committee shall:
- i) review the adequacy and security of AWS's arrangements for its employees, alliance partners and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
  - ii) review the company's procedures for detecting fraud;
  - iii) review the company's systems and controls for the prevention of bribery and receive reports on non-compliance; and
  - iv) review regular reports from the Group Legal Director regarding potential and actual litigation involving AWS.

### **Internal Audit**

22. The Committee shall:
- i) In conjunction with the AWG Audit Committee, recommend the appointment or termination of the Internal Auditor to the AWS Board;
  - ii) monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
  - iii) review and approve the annual internal audit plan to ensure it is aligned to the key risks of the business and receive regular reports on work carried out;
  - iv) ensure internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan, and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors.
  - v) carry out an annual assessment of the effectiveness of the internal audit function, and as part of this assessment:
    - a. meet with the head of internal audit without the presence of management to discuss the effectiveness of the function;

- b. review and assess the annual internal audit work plan;
  - c. receive a report on the results of the internal auditor's work;
  - d. determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and
  - e. review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function;
- vi monitor and assess the role and effectiveness of the internal audit function in the overall context of the company's risk management system and the work of compliance, finance and the external auditor; and
- vii consider whether an independent, third party review of process is appropriate.

### **External Audit**

23. The Audit Committee of AWG will retain responsibility, to consider and make recommendations to the Board, to be put to shareholders for consideration, in relation to the appointment, re-appointment and removal of the Company's external auditor. If an auditor resigns the AWG Audit Committee shall investigate the issues leading to this and decide whether any action is required.
24. The Committee will develop and oversee the relationship with the external auditor in respect of AWS. This includes but is not limited to:
- a. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - b. assessing annually their independence and objectivity taking into account relevant UK law, regulation and other professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non audit services;
  - c. satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
  - d. agreeing with the Board a policy on the employment of former employees of the auditor, taking into account FRC requirements and legal requirements, and monitor the application of the policy;
  - e. monitoring the auditor's processes for maintaining independence, its compliance with relevant UK law, regulation and other professional requirements including the guidance on the rotation of audit partner and staff;

- f. monitoring the level of fees paid by the Company to the auditor compared to the overall fee income of the firm, office and partner and assess these in the context of relevant legal, professional and regulatory requirements and guidance;
  - g. assessing annually their qualifications, expertise and resources and independence of the auditor and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
  - h. seeking to ensure coordination of the external audit with the activities of the internal audit function;
  - i. evaluating the risks to the quality and effectiveness of the financial reporting process in the light of the external auditors communications with the Committee;
  - j. develop the Company's formal policy on the provision of non-audit services by the auditor, including approval of non-audit services by the Committee and specifying the types of non-audit services to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements.
25. The Committee will meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. At least once a year, meet with the auditor without management being present, to discuss the auditor's remit and any issues arising from the audit.
26. The Committee will review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
27. The Committee will review the effectiveness of the external auditor.
28. The Committee will discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan for AWS, ensuring that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise of the audit team.
29. The Committee will review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- a. a discussion of any major issues which arose during the audit;
  - b. the auditor's explanation of how the risks to audit quality were addressed;
  - c. key accounting and audit judgements;
  - d. the auditor's view of their interactions with senior management; and
  - e. levels of errors identified during the audit.
30. The Committee will review any representation letter(s) requested by the external auditor before they are signed by management;

31. The Committee will review the management letter and management's response to the auditors finding and recommendations; and
32. The Committee will review the effectiveness of the audit process, including and assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee.

### **Reporting Responsibilities**

33. The Committee shall make whatever recommendations to the AWS Board it deems appropriate on any area within its remit where action or improvement is needed and shall also formally report to the Board on how it has discharged its responsibilities.
34. The Committee shall compile a report on its activities to be included in the AWS Annual Integrated Report.

### **Other Matters**

35. The Committee shall:
  - i) have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;
  - ii) give due consideration to laws and regulations, the provisions of the AWS Corporate Governance Code, and the requirements of the UK Listing Authority's Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules, as appropriate;
  - iii) be responsible for coordination of the internal and external auditors;
  - iv) oversee any investigation of activities which are within its terms of reference; and
  - v) review its own performance, 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.

### **Authority**

36. The Committee is authorised to:
  - i) seek any information it requires from any employee of the Company in order to perform its duties;
  - ii) obtain, at the company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
  - iii) call any employee to be questioned at a meeting of the Committee as and when required; and

- iv) have the right to publish in the AWS Annual Integrated Report, details of any issues that cannot be resolved between the Committee and the AWS Board.