



**GLAS CYMRU HOLDINGS CYFYNGEDIG
(GLAS CYMRU)**

**DŴR CYMRU CYFYNGEDIG
(DŴR CYMRU)**

**AUDIT COMMITTEE
TERMS OF REFERENCE**

Approved by the Board on 3 June 2021

GLAS CYMRU HOLDINGS CYFYNGEDIG (Company No. 09917809)

DŴR CYMRU CYFYNGEDIG (Company No. 02366777)

AUDIT COMMITTEE

TERMS OF REFERENCE

In this document:

- ‘**Group**’ means Glas Cymru Holdings Cyfyngedig (“**Glas Cymru**”) and its subsidiaries
- ‘**Company**’ means Dwr Cymru Cyfyngedig (“**Dwr Cymru**”)
- ‘**Board**’ or ‘**Group Board**’ means the Joint Board of Glas Cymru and Dwr Cymru
- ‘**Member(s)**’ means the Members of Glas Cymru

1. PURPOSE

- 1.1 The Board has established a Committee of the Board to be known as the Audit Committee (the “**Committee**”).
- 1.2 The Committee has the delegated authority of the Board in respect of the functions and powers set out in these terms of reference.
- 1.3 The role of the Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring:
- 1.3.1 the integrity of the financial and narrative statements and other financial information provided to Members and other stakeholders;
 - 1.3.2 the Company’s system of internal controls, including those concerning public interest disclosures (whistleblowing) and risk management;
 - 1.3.3 the effectiveness of the internal and external audit process and auditors;
 - 1.3.4 the processes for compliance with statutory Licence obligations, laws, regulations and ethical codes of practice.

2. COMMITTEE

2.1 Membership

- 2.1.1 The Committee will be made up of at least three (3) members and, as a whole, shall have competence relevant to the sector in which the Company operates.
- 2.1.2 All members of the Committee will be independent non-executive directors at least one of whom will have recent and relevant financial expertise, for example as an auditor or a finance director of a listed company, and/or hold a qualification from one of the professional accountancy bodies.
- 2.1.3 Members of the Committee will be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chair of the Committee (the “**Committee Chair**”).
- 2.1.4 The Chair of the Board will not be a member of the Committee, but may be invited to attend its meetings. The Chair of the Board will not chair the Committee.
- 2.1.5 The Board shall appoint the Chair of the Committee who will be an independent Non-Executive Director. In the absence of the Committee Chair and/or their appointed deputy, the remaining Committee members present will elect one of themselves to chair the meeting.

- 2.1.6 Appointments to the Committee shall be for a period of up to three years, extendable by no more than two further three-year periods, provided the Director remains independent. In exceptional circumstances an appointment may be extended beyond this provided the Board considers that the individual remains independent.
- 2.1.7 The Committee Chair shall review membership of the Committee annually, as part of the annual performance evaluation of the Committee.
- 2.1.8 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive Officer, the Chief Financial Officer, Director of Finance, Head of Business Assurance, Company Secretary and representatives of the External Auditor shall normally attend meetings at the invitation of the Committee Chair and other non-Committee members may be invited to attend all or part of any meetings as and when appropriate and necessary with the agreement of the Committee Chair.

2.2 **Secretary**

The Company Secretary (or their nominee) shall be Secretary to the Committee (the “**Secretary**”).

2.3 **Quorum**

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

2.4 **Role of Committee Members**

Committee members will utilise their personal skills, knowledge and judgement to perform the responsibilities set out in these terms of reference.

3. **MEETINGS**

3.1 **Meeting Frequency and Schedule**

- 3.1.1 The Committee will meet at least four (4) times a year at appropriate times in the financial reporting and audit cycle and otherwise as required.
- 3.1.2 Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Company's governance, including the Chair of the Board, the Chief Executive Officer, the Chief Financial Officer, the Director of Finance, the External Auditor Lead Partner and the Head of Internal Audit.

3.2 **Notice of Meetings**

- 3.2.1 Meetings of the Committee will be called by the Secretary at the request of any of its members, or at the request of the Chief Financial Officer, External Auditor Lead Partner or Head of Internal Audit if they consider it necessary.
- 3.2.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, will be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than five (5) working days before the date of the meeting. Supporting papers will be sent to Committee members and to other attendees as appropriate, at the same time.

3.3 **Minutes**

- 3.3.1 The Secretary will minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 3.3.2 Minutes of Committee meetings will be agreed with the Chairman and then circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless a conflict of interest exists.

3.4 **Annual General Meeting (AGM)**

The Committee Chair (or, in its absence, an alternative member of the Committee) will attend the AGM prepared to respond to any Member questions on matters pertaining to the Committee's role, responsibilities and activities.

4. **DUTIES**

4.1 The Committee shall carry out the duties below for the Company and its subsidiaries (the "**Group**"), as appropriate.

4.2 ***Financial Reporting***

4.3 The Committee will:

- 4.3.1 monitor and discuss with management the integrity of the financial statements of the Group, including:
 - a) the annual and half-yearly reports;
 - b) preliminary results announcements; and
 - c) any other formal statements relating to its financial performance;
- 4.3.2 review and report to the Board on significant financial reporting issues and judgements which the financial statements, interim reports, preliminary announcements and related formal statements contain having regard to matters communicated to it by the external auditor;
- 4.3.3 review and challenge, where necessary:
 - a) the application and appropriateness of significant accounting policies, and any changes to them both on a year on year basis and across the Company and the Group;
 - b) whether the Company has made appropriate estimates and judgements, taking into account the external auditor's views.
 - c) the clarity and completeness of financial reporting disclosures and any changes to those disclosures, including the review of any correspondence between the Company and the external auditor;
 - d) the methods used to account for significant or unusual transactions (including any off balance sheet arrangements) where different approaches are possible;
 - e) significant adjustments resulting from the external audit; and
 - f) the assumptions or qualifications in support of the going concern statement (including any material uncertainties as to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements) and the longer term viability statement (including an assessment of the prospects of the Group looking forward over an appropriate and justified period);
- 4.3.4 monitor compliance with financial reporting standards including Ofwat's Regulatory Accounting Guidelines and any recognised investment exchange and other financial and governance reporting requirements;
- 4.3.5 review all material information presented with the financial statements, such as the strategic report and the corporate governance statements, insofar as it relates to audit and risk management;
- 4.3.6 review the disclosures in the annual report concerning the Group's pension funds if not reviewed by the Board as a whole;
- 4.3.7 review first any other statements that contain financial information and require Board approval, if carrying out a review before Board approval would be practicable and consistent with any

prompt reporting requirements under any law or regulation including the Listing Rules or Disclosure Guidance and Transparency Rules sourcebook; and

- 4.3.8 where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, report its views to the Board.

4.4 **Narrative Reporting**

Where requested by the Board, the Committee shall review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for Members to assess the Company's performance, business model and strategy and whether it informs the Board's statement in the annual report on these matters as is required under the UK Corporate Governance Code.

4.5 **Regulatory Reporting**

In respect of Dwr Cymru Cyfyngedig, the Committee will review and challenge where necessary:

- 4.5.1 The integrity of the processes that ensure the quality and reliability of regulatory statements and information to regulatory bodies, including, but not limited to, the Annual Regulatory Compliance Statement and Annual Performance Report, submitted to Ofwat; and
- 4.5.2 The integrity of the processes that ensure compliance with the requirements of regulatory submissions to regulatory bodies.

The Committee will oversee the production of the Risk and Compliance Statement and the Annual Performance Report and will monitor and discuss the formal statements and in particular the Board Assurances presented to the Committee, with a view to recommending approval to the Board. Where the Committee is not satisfied with any aspect of the proposed reporting by the Company, it will report its views to the Board.

4.6 ***Risk Management systems and Internal Controls***

The Committee will:

(A) Risk management

- 4.6.1 on behalf of the Board (which retains overall responsibility for risk management), review and monitor the Company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems and, at least annually, carry out a review of their effectiveness, and review and approve the statement to be included in the annual report concerning internal risk management and the viability statement; and
- 4.6.2 where requested by the Board, ensure that a robust assessment of the emerging and principal risks facing the Company has been undertaken (including those risks that would threaten the Company's business model, future performance, solvency or liquidity and reputation), that procedures are in place to identify emerging risks and provide advice on the management and mitigation of those risks;

(B) Internal Controls

- 4.6.3 review the effectiveness of contingency plans for Disaster Recovery and Business Continuity; and
- 4.6.4 review the Company's internal financial controls and internal control systems and, at least annually, carry out a review of its effectiveness and approve the statement to be included in the annual report concerning internal control;

On-going Viability

- 4.6.5 where requested by the Board, provide advice on how, taking into account the Company's

position and principal risks, the Company's prospects have been assessed, over what period and why the period is regarded as appropriate. The Committee shall also advise on whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary;

Management and internal and external audit reports

- 4.6.6 receive regular reports from management on material litigation, tax compliance and compliance with legal, regulatory and statutory requirements;
- 4.6.7 review the assurance reports from management on the effectiveness of the internal control and risk management systems and from Internal Audit, the External Auditor and others on the operational effectiveness of matters related to risk and control. The Committee should satisfy itself that these sources of assurance and information are sufficient and objective and are enough to enable the Board to satisfy itself that they are operating effectively; and
- 4.6.8 review the timeliness of, and reports on, the effectiveness of corrective action taken by management in response to any material External or Internal Audit recommendation;

Disclosures

- 4.6.9 consider any necessary disclosure implications of the process that has been applied by the Board to deal with material internal control aspects of any significant problems disclosed in the annual report and accounts; and
- 4.6.10 consider the major findings of any relevant internal investigations into risk and control weaknesses, fraud, or misconduct and management's response, and also consider whether any such failings or weaknesses are significant and therefore require disclosure, the basis and accuracy of explanations given as to what actions are being taken to address them, and whether the level of disclosure of such actions is appropriate;

4.7 Internal Audit

- 4.7.1 approve the appointment and removal of the Head of the Internal Audit;
- 4.7.2 review and approve the role and mandate of Internal Audit and monitor and review the effectiveness of its work and annually approve the Internal Audit charter ensuring that it is appropriate for the Company's current needs;
- 4.7.3 review and approve the annual Internal Audit plan to ensure it is aligned to business's key risks and receive regular reports on work carried out;
- 4.7.4 ensure that the Internal Audit function has unrestricted scope, necessary resources and appropriate access to information to enable it to perform its function effectively and in accordance with appropriate professional standards for internal auditors. The Committee shall also ensure that the function has adequate standing and is free from management or other restrictions;
- 4.7.5 ensure Internal Audit has direct access to the Chair of the Board and to the Committee Chair; and is accountable to the Committee;
- 4.7.6 review and assess the annual Internal Audit plan and be advised of the reasons for any change or delay in the plan and ensure co-ordination between the Internal and External Auditors;
- 4.7.7 receive a report on the results of the Internal Auditor's work on a periodic basis;
- 4.7.8 determine whether it is satisfied that the quality, experience and expertise of Internal Audit are appropriate for the business;

- 4.7.9 review and monitor management's responsiveness to the Internal Auditors' findings and recommendations and management's actions to support the effective working of the Internal Audit function;
- 4.7.10 monitor and review the role and effectiveness of the Company's Internal Audit function in the context of the Company's overall risk management system, irrespective of whether this is an in-house or outsourced function, and the work of the compliance and finance functions and the External Auditor, ensuring that the Internal Audit plan is aligned to the business's key risks;
- 4.7.11 ensure that there is open communication between the different functions and that the Internal Audit function evaluates the effectiveness of Risk, Compliance and Finance functions as part of its Internal Audit plan;
- 4.7.12 ensure that the Committee meets with the Head of Internal Audit to discuss effectiveness of the Internal Audit function, without management present, at least once per year; and
- 4.7.13 consider whether an independent, third party review of Internal Audit effectiveness and processes is required.

4.8 **External Audit**

The Committee shall, taking into account any applicable law and legislation, other professional requirements and the Financial Reporting Standard's Revised Ethical Standard 2019 and any subsequent revisions thereto (Ethical Standard):

4.8.1 **Appointment, reappointment and resignation**

- a) consider and make recommendations to the Board, to be put to Members for approval at the Company's AGM, on the appointment, reappointment or removal of the Company's external auditors;
- b) ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms and, in respect of such tender, conduct such tender process and develop and oversee the selection process, ensuring that all tendering firms have such access as is necessary to information and individuals during the tendering process;
- c) if any external auditor resigns, investigate the issues leading to this and decide whether any action is required; and
- d) evaluate the risks to the quality and effectiveness of the financial reporting process in light of the external auditor's communications with the Committee and consider the need to include the risk of the withdrawal of the external auditor from the market in that evaluation.

4.8.2 **Terms of engagement**

Oversee the relationship with the external auditor and approve their terms of engagement, including any engagement letter issued at the start of each audit, the scope of the audit, and approve their remuneration (including fees for both the audit and non-audit services) to ensure that the level of fees is appropriate to enable an effective and high quality audit to be undertaken;

4.8.3 **Independence and expertise**

- a) review and assess on an annual basis:
 - (i) the External Auditor's independence and objectivity taking into account the relevant UK law, the Ethical Standard and other professional and regulatory requirements and the

relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards to mitigate those threats including the provision of any non-audit services;

(ii) the qualifications, expertise and resources of the External Auditor and, taking into account relevant UK professional and regulatory requirements, the effectiveness of the external audit process, which shall include a report from the External Auditor on their own internal quality procedures;

(iii) seek reassurance from the External Auditor and their staff and satisfy itself that they have no relationships with the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;

(iv) at least annually, seek information from the external audit firm about, and monitor, the external audit firm's policies and processes for maintaining independence and its compliance with the relevant UK law, regulation and other professional requirements and the Ethical Standard, including guidance on the rotation of the audit partner and staff; and

(v) agree with the Board the Company's policy on employment of former employees of the Company's external auditor, taking into account the Ethical Standard and legal requirements and monitor the application of this policy;

4.8.4 Fees of external auditor

Monitor the level of fees paid by the Company to the External Auditor compared to the overall fee income of the firm, office and partner and assess these in the context of the legal, professional and regulatory requirements, guidance and the Ethical Standard;

4.8.5 Non-audit services

(a) develop and recommend to the Board, and implement, the Company's formal policy on the External Auditor's provision of non-audit services, including the Committee's approval of non-audit services and the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include assessment of:

(i) threats to the External Auditor's independence and objectivity and any safeguards in place to eliminate or reduce threats;

(ii) the nature of the non-audit services;

(iii) in light of the external audit firm's skills and experience, whether it is the most suitable supplier of the non-audit service;

(iv) the fees for the non-audit services, both for individual services and in aggregate, relative to the audit fee, including special terms and conditions;

(v) the criteria governing compensation of the individuals performing the audit;

(vi) ensure that the provision of non-audit services does not impair the External Auditor's independence or objectivity, satisfying itself that there are no relationships between the auditor and the Company outside the ordinary course of business (including the level of non-audit fees) that could adversely affect the auditor's independence and objectivity, or the audit process; and

(vii) keep the policy for the provision of non-audit services under review;

4.8.6 Audit cycle

(a) review and approve the annual audit plan at the start of the audit cycle and ensure it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;

(b) meet regularly with the External Auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without the Executive Directors or management being present, to review and discuss the auditor's remit and the findings of the audit including (but not limited to) any major resolved or unresolved issues that arose during the audit, the auditor's explanation of how risks to audit quality were addressed, key accounting and audit judgements, the auditor's view of their interactions with senior management and levels of errors identified during the audit and levels of errors identified during the audit;

(c) consider communications from the External Auditor on audit planning and findings on material weaknesses in accounting and internal control systems that come to the auditor's attention, including a review of material items of correspondence between the Company and the External Auditor;

(d) review any representation letter(s) requested by the External Auditor before they are signed by management and consider whether, based on its knowledge, the information provided is complete and appropriate;

(e) review, before its consideration by the Board, the External Auditor's report to the directors and their management letter, including management's response to the auditor's findings and recommendations; and

(f) at the end of the audit cycle, assess the effectiveness of the audit process including:

(i) reviewing whether the auditor has met the agreed audit plan and whether the External Auditor identified any risks to audit quality and, if so, how these were addressed;

(ii) understanding reasons for changes to the audit plan;

(iii) considering the external auditor's robustness and perceptiveness in handling key accounting and audit judgements and responding to the Committee's questions;

(iv) obtaining feedback from key people on the conduct of the audit; and

(v) reviewing and monitoring the content of the external auditor's management letter and reporting to the Board on the effectiveness of the audit process;

4.8.7 Other External Audit Matters

(a) be responsible for the co-ordination between the activities of the External auditor and the Internal Audit function; and

(b) assess and make recommendations to the Board and to the Members in the event the Company wishes to enter into a liability limitation agreement with its External Auditor.

4.9 Treasury, Taxation and Insurance

The Committee will:

a) at least annually review the Company's treasury and tax policies and insurance arrangements; and

b) monitor, on behalf of the Board, compliance with treasury policy and delegated authorities.

4.10 Whistleblowing

The Committee shall consider matters relating to whistleblowing, including:

a) review the adequacy and security of the Company's arrangements for its workforce to raise concerns, in confidence and anonymously, about possible wrongdoing in financial reporting or other matters;

- b) ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action. The Committee will be mindful of the requirements to preserve confidentiality under the Public Disclosure Act 1998;
- c) receive reports on whistleblowing matters at every meeting of the Committee; and
- d) review major findings of any relevant internal investigation into control weaknesses, fraud or misconduct, and management's response to this (in the absence of management where necessary).

4.11 **Fraud**

The Committee shall annually review the Company's procedures for preventing and detecting fraud.

4.12 **Compliance**

The Committee will:

- a) consider matters relating to applicable data protection legislation, including receiving reports and overseeing the Group's policies and procedures on data protection, assessing their adequacy and effectiveness;
- b) review the Company's systems and controls for ethical behaviour and the prevention of bribery and modern slavery and receive reports on non-compliance; and
- c) review regular reports from the Compliance Manager and keep under review the adequacy and effectiveness of the Company's compliance function.

5. **REPORTING**

The Committee will:

- a) report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and the minutes of all Committee meetings shall be included in the board papers for a subsequent board meeting;
- b) prepare a formal report on its activities and how the Committee has discharged its responsibilities to be included in the Company's annual report, which shall include:
 - (i) details of the membership of the Committee, number of meetings held and attendance over the course of the year;
 - (ii) a summary of the role and work of the Committee;
 - (iii) how the Committee's performance evaluation has been conducted;
 - (iv) the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the External Auditor, the nature and extent of any interaction with the Financial Reporting Council's Corporate Reporting Review team and any significant findings of a review of the Company's audit conducted by the Financial Reporting Council's Audit Quality Review team;
 - (v) confirmation that the Board has carried out a robust assessment of the principal and emerging risks facing the Company, a description of those risks, the procedures in place to identify emerging risks and an explanation as to how they are being managed and mitigated;
 - (vi) an explanation of its assessment of the independence and effectiveness of the external audit process (including the provision of non-audit services and an explanation of how, if the auditors provide non-audit services to the Company and the Group, auditor objectivity and independence is safeguarded) and its approach taken to the appointment or reappointment of the external auditor, length of incumbent auditor's tenure, when a tender

was last conducted, advance notice of any retendering plans (and reasons why completing the process in that proposed financial year is in the best interests of the Company) and any contractual provisions restricting the Committee's choice of auditor, and the amount of fees paid to the auditor for any of its services;

(vii) the Committee's policy for approval of non-audit services, how auditor objectivity and independence is safeguarded, the audit fees for the statutory audit for audit related services and other non-audit services, including the ratio of audit to non-audit work, and for each significant engagement, or category of engagements, what the services are and why the Committee concluded that it was in the Company's interests to purchase them from the external auditor;

(viii) an explanation of how the Committee has addressed the effectiveness of the internal audit process;

(ix) all other information requirements set out in the UK Corporate Governance Code and/or specified by Ofwat; and

(x) any other issues on which the board has requested the Committee's opinion.

- c) in compiling the report referred to in Paragraph 5 b), exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but include at least those matters that have informed the Board's assessment of whether the Company is a going concern and the longer term viability statement;
- d) make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed;
- e) where disagreements between the Committee and the Board cannot be resolved, report the issue to the Members as part of the report on the Committee's activities in the annual report referred to in Paragraph 5 b);
- f) if the Board does not accept the Committee's recommendation regarding the appointment, reappointment or removal of the External Auditors, include a statement explaining its recommendation and reasons why the Board has taken a different stance in the annual report referred to in Paragraph 5 b); and
- g) make available to Members these terms of reference by placing them on the Company's website.

6. OTHER MATTERS

The Committee will:

- a) consider other duties determined by the Board from time to time;
- b) have access to sufficient resources in order to carry out its duties, including access to the Group Company Secretariat for assistance as required;
- c) be provided with appropriate and timely training, both in the form of an induction programme for new Committee members and on an on-going basis for all Committee members;
- d) the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules, Ofwat's principles on Leadership, Transparency and Governance and any other applicable rules, as appropriate;
- e) oversee any investigation of activities which are within its terms of reference and act for internal purposes as a court of the last resort;
- f) work and liaise as necessary with all other Board Committees; and

- g) arrange for the periodic reviews of its own performance and, 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.

7. AUTHORITY

The Committee is authorised to:

- a) carry out all duties set out in these terms of reference, to have unrestricted access to the Company's documents and information and to obtain, at the Company's expense, appropriate independent legal or professional advice on any matter within its terms of reference as it considers necessary;
- b) seek any information it requires from any employee of the Group to perform its duties and to call on any employee of the Group to be questioned at a Committee meeting as and when required; and collectively and individually have direct access to the Chief Financial Officer, the Director of Finance, the Head of Internal Audit and the Company's External Auditors; and
- c) have the right to publish in the Company's annual report details of any issues that cannot be resolved between the Committee and the Board.