

## ERVIA

### AUDIT AND RISK COMMITTEE

#### TERMS OF REFERENCE

##### **Section 1 - Membership**

The Audit and Risk Committee (the “**Committee**”) shall be appointed by the Ervia Board (the “**Board**”) in consultation with the Chairperson of the Committee and shall consist of not less than three independent non-executive Board Members. Membership of the Committee shall not be confined solely to Board Members and the Board may draw members from outside. The Chairperson of the Board may attend meetings of the Committee.

While membership of the Committee shall be reviewed annually by the Chairperson of the Committee and changes as required may be recommended to the Board, members of the Committee shall ordinarily serve a period of three years from the date of appointment, which may be renewed for up to three years, to a maximum of six years in total. The general aim is to refresh the membership from time to time to ensure an appropriate balance between continuity and fresh perspective.

At least one independent non-executive member of the Committee shall be competent in accounting and/or auditing practices. In addition, at least one member of the Committee shall have recent and relevant risk management experience. Where possible at least one member of the Committee should also be a member of the Remuneration Committee. The members of an Audit Committee as a whole shall have competence relevant to the utilities sector.

Members of the Committee shall be provided with, soon after their appointment, an understanding of:

- the organisational culture, objectives and challenges;
- the organisational structure including key relationships e.g. Ervia’s relationship with the Minister for Housing Local Government and Heritage and Department; and
- relevant legislation or other rules governing the organisation.

Ervia and its subsidiary companies including Irish Water and Gas Networks Ireland are collectively referred to as the “**Group**”.

##### **1.1 - Chairperson**

The Chairperson of the Committee shall be appointed by the Board. In the absence of the Chairperson at a Committee meeting, the remaining members present shall elect one of themselves to be the Chairperson of the meeting. The Chairperson of the Board shall not be the Chairperson of the Committee.

The Chairperson is responsible for ensuring that:-

- the Committee is appropriately resourced;
- the Committee sets and addresses an appropriate workplan for each year;

- the Committee reviews Internal Audit reports and management responses and ensures that actions are followed up;
- reports to the Committee contain relevant information and are provided at the right time in an appropriate format;
- absent Committee members are briefed on meetings and attendance records are maintained and reviewed annually;
- appropriate minutes are maintained of each meeting;
- regular oral or written reports of the Committee's proceedings are provided to the Board; and
- matters arising are reported on at each subsequent meeting.

The Chairperson shall be involved in the appointment of new Committee members in consultation with the Chairperson of the Board.

Where the Chairperson calls upon members to vote on any issue, decisions will be by way of simple majority. In the event of a split decision, the Chairperson may exercise a casting vote to determine the outcome.

The Group Head of Internal Audit, the Group Head of Risk and the external auditor appointed to the companies within the Group ("External Auditor") shall have free and confidential access to the Chairperson of the Committee.

## **1.2 – Company Secretary**

The Ervia Company Secretary or his/her nominee, as agreed with the Chairperson of the Committee, shall act as Secretary to the Committee (the "**Secretary**") and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

## **1.3 - Training**

The Committee shall 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. The Secretary will be responsible for ensuring that this training, as identified by the Committee members, is provided. The Chairperson and Committee members shall make recommendations to the Board on the Committee's and individual members' training needs.

## **Section 2 – Meetings**

### **2.1 - Quorum**

The quorum for any meeting shall be three (3).

### **2.2 – Conflicts of Interest**

Committee members shall take personal responsibility to declare any potential conflict of interest arising in relation to any items on the agenda for Committee meetings.

A register of Board Members' interests shall be maintained by the Company Secretary. Where a conflict of interest arises, a Committee member shall bring this to the attention of the Chairperson and where necessary absent themselves from the meeting for the

duration of the discussion and shall not take part in any decisions in relation to the matter in question. Similar arrangements apply in relation to relevant meeting documentation, in that such documentation shall not be made available to the conflicted Committee member. This shall be noted in the minutes of the Committee meeting.

### **2.3 - Attendance**

Only members of the Committee are entitled to vote at Committee meetings. Members of the Ervia Executive Committee or members of senior management, while not members of the Committee, may attend meetings at the invitation of the Chairperson. The Committee may invite any Board Member, executive or other person to attend any meeting(s) of the Committee from time to time, as it may consider desirable. A representative of the External Auditor shall, at the invitation of the Chairperson, attend meetings convened to discuss the nature and scope of the annual external audit and/or to review the annual financial statements and the External Auditor's Management Letter.

The Committee shall have a discussion with each of the External Auditor, the Group Head of Internal Audit and the Group Head of Risk at the Committee's discretion, as and when required, but at least once a year, without executive members of the Board or other employees of the Group present, to ensure that there are no unresolved issues of concern.

### **2.4 - Frequency**

Meetings shall be convened at the discretion of the Chairperson, but shall be held at least four times per annum. Such meetings shall coincide with key dates in the financial reporting cycle. Board members, Committee Members, the Group Head of Internal Audit, the Group Head of Risk or the External Auditor may also request further meetings as they consider necessary.

Outside the formal meeting programme, the committee Chairperson and to a lesser extent the other committee members, will maintain a dialogue with key individuals involved in the company's governance, including the Board Chairperson, the Chief Executive, the Chief Financial Officer, the external audit lead partner and the Head of Internal Audit.

### **2.5 - Minutes**

The Secretary shall be responsible for recording the minutes of each meeting including recording the names of those present and in attendance. Minutes of meetings will be circulated to all Members in advance of their formal adoption by the Committee and their noting by the Board.

## **Section 3 - Authority**

The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information, including documentation, it requires from any employee or agent of the Group to enable it to discharge its responsibilities.

It is also authorised to seek any information it requires from the External Auditor. The Committee may obtain external legal or other independent professional advice if considered necessary. It shall have access to adequate funding from Ervia to enable it to discharge its duties. The Committee is authorised to co-opt additional members to provide specialist skills, knowledge and experience if it considers necessary.

## **Section 4 – Duties and responsibilities**

4.1 The duties and responsibilities of the Committee are to assist, report to, and make recommendations to the Board on the discharging of the Board's responsibilities as they relate to the following areas:-

### **4.1.1 Internal Controls**

- a) To ensure the appropriateness and completeness of the Group's system of internal control and compliance, reviewing the manner and framework in which management ensures and monitors the adequacy of the nature, extent and effectiveness of internal control systems, including accounting and financial control systems, thereby maintaining an effective system of internal control.
- b) To ensure that the Group's system of internal control operated effectively during the reporting period and that the system of internal reporting gives early warning of internal control failures and emerging risks.
- c) To prepare and publish an annual statement on the Group's internal control systems to be included in the Annual Report.
- d) To monitor the effectiveness of the Group's systems of internal control and the progress in implementing recommendations from internal audit, external audit or other reviews.
- e) To review the comprehensiveness, reliability and integrity of assurance statements from management in relation to controls with a particular focus on specified controls not operating during the reporting period.

### **4.1.2 Financial Statements**

- a) To ensure that the Group keeps proper books of account.
- b) To monitor the integrity of the financial statements of the Group, including its annual and interim reports and note significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the external auditor.
- c) To review the annual financial statements of the Group ensuring that they present fairly the financial position and results for the year, focusing particularly on:
  - i) the application of significant accounting policies and any changes to them;
  - ii) key areas of judgement applied in the preparation of the financial statements;

- iii) significant adjusted or unadjusted audit differences;
  - iv) compliance with accounting standards;
  - v) compliance with relevant financial laws and financial regulations;
  - vi) compliance with the Group's Anti-Fraud Policy;
  - vii) appropriate recording of losses;
  - viii) ensuring processes are in place to ensure that regularity, probity and propriety are achieved;
  - ix) ensuring that any issues raised by the External Auditor have been comprehensively and appropriately dealt with; and
  - x) consistency of all financial information, including the financial statements, as presented in the annual report.
- d) To consider (when appropriate) whether the annual report (including the business review and corporate governance review) and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for an assessment of the entity's financial position and financial performance, business model and strategy.
- e) To review any formal announcements relating to any Group entity's financial performance prior to publication.

#### **4.1.2.1 Irish Water's and Gas Networks Ireland's Financial Statements ("the Subsidiary Companies")**

The Committee shall inform the individual boards of the Subsidiary Companies on an exceptions only basis of matters which arise during its review which are material to the approval of their financial statements.

In light of Gas Networks Ireland's status as a public interest entity, the Committee shall discharge its obligations under section 1551(14) of the Companies Act 2014 (to inform Directors of Gas Networks Ireland of the outcome of the Statutory Audit and to submit recommendations (if required) on financial reporting processes) by directing the statutory auditors to address the report required under Article 11 (1) of Regulation (EU) No. 537/2014 to the Board of Directors of Gas Networks Ireland as well as to the Committee.

#### **4.2 In addition, the Committee will have the following responsibilities:**

##### **4.2.1 External Auditor**

- a) To oversee the initiation of audit tenders and the selection process for the External Auditor, ensuring audit proposals are evaluated on the basis of transparent non-discriminatory selection criteria.

- b) Following evaluation of the audit tender submissions when an audit tender is undertaken, to recommend two potential audit firms to the Board, demonstrating a justified preference for one firm.
- c) To consider and make the appointment, reappointment and removal of the External Auditor, and to set terms of engagement, length of appointment, independence and remuneration for the External Auditor.
- d) To review and monitor the independence of the External Auditor, and in particular the provision of non-audit services by the External Auditor to the Group.
- e) To consider for approval the award of any contracts for non-audit services to the External Auditor or their affiliates for non-audit services, following an assessment of any threats to the independence of the External Auditor, of the safeguards in place and adherence to the 70% non-audit services fee cap prescribed in Article 4 of Regulation (EU) No 537/2014.
- f) To satisfy itself that there are no relationships between the auditor and the Group (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity.
- g) To agree with the Board a policy on the employment of former employees of the external auditor, taking into account the Ethical Standards and legal requirements, and monitor the application of this policy.
- h) To discuss with the External Auditor, before the audit commences, the nature and scope of the audit and to approve the terms of the engagement letter.
- i) To discuss matters arising from the interim and final audits and any other matters the External Auditor may wish to discuss.
- j) To review the External Auditor's presentations and reports throughout the course of the audit, the External Auditor's Management Letter and the Board's Letter(s) of Representation.
- k) To oversee implementation of the External Auditor's Management Letter recommendations.
- l) To ensure co-operation between the External Auditor and the Group Head of Internal Audit and to request confirmation from both parties of the effectiveness of their working relationship - to include sharing of audit plans and copies of completed Internal Audit reports.
- m) To monitor and review at least annually the performance, qualifications, expertise, resources, independence and objectivity of the External Auditor and the effectiveness of the external audit process.
- n) To request and consider the views of the External Auditor on the work and effectiveness of the Group's Finance team and Internal Audit.
- o) If an external auditor resigns, investigate the issues leading to this and decide whether any action is required.

- p) To evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee.

#### **4.2.2 Internal Audit**

- a) To review and approve the Internal Audit Charter on an annual basis to ensure it is aligned to the key risks of the business and receive regular reports on work carried out
- b) To review and approve the Internal Audit Plan on at least an annual basis and to consider risk and problem areas it should address.
- c) To monitor and review the effectiveness and scope of the internal audit programme, and ensure that the internal audit function is adequately resourced and has sufficient access to people and information allowing it to address significant risks within the Group and to perform in accordance with appropriate professional standards for internal auditors
- d) To ensure adequate attention is paid to value for money auditing.
- e) To receive regular progress reports from the internal audit function.
- f) To consider the findings of internal audit's internal investigations and management's response to such findings.
- g) To review the effectiveness of the internal audit function on an annual basis taking into consideration its independence, expertise, experience and adherence to professional standards.
- h) To approve the appointment or termination of appointment of the Group Head of Internal Audit.
- i) To ensure the Group Head of Internal Audit has direct access to the Board Chairperson and to the Committee Chairperson, providing independence from the executive and accountability to the Committee.
- j) To monitor the effectiveness of the internal audit function in the overall context of the risk management system and the work of compliance, finance and the external auditor.
- k) To consider periodically whether an independent, third party review of internal audit processes is appropriate

#### **4.2.3 Risk Management**

- a) To assess the appropriateness of the Group's risk management framework in the context of the risk appetite set by the Board including:-
- risk strategy;
  - risk registers and related processes;
  - target risk profile; and

- procedures for measuring, managing, monitoring and reporting of the key risks to which the Group is exposed.
- b) To review the Group's Risk Policy and Risk Appetite Framework on an annual basis.
  - c) To review the Group's risk profile and monitor risk management performance and trends in key risks, in delivery of the target risk profile, enabling the Board to confirm annually that it has carried out an assessment of the Group's principal risks, including a description of these risks where appropriate, and associated mitigation measures or strategies.
  - d) To review risk reports provided to the Committee, and monitor management's responsiveness to key actions.
  - e) To review arrangements for crisis management and business continuity planning for the Group on at least an annual basis.
  - f) On a periodic basis to undertake an external review of the effectiveness of the risk management framework.
  - g) To consider the implications of the findings arising from any internal audit review of the Group's risk governance and management framework.
  - h) To ensure the risk function is adequately resourced and has appropriate access to information to enable it to perform its function effectively and with sufficient independence.
  - i) To approve the appointment or termination of appointment of the Group Head of Risk.

#### **4.2.4 Other Activities**

- a) To review and consider the effectiveness and adequacy of the Protected Disclosures Policy, the Anti-Fraud Policy and the Anti-Bribery and Anti-Corruption Policy and staff awareness of these policies.
- b) To be made aware of all protected disclosures and regularly updated on the progress of all ensuing investigations.
- c) To review and approve a report, for publication not later than 30 June each year, in the form and covering the matters required by the Protected Disclosures Act 2014.
- d) To consider whether financial control, including the delegated authority for approving expenditure and contracts, enables the Group to achieve its objectives on a value for money basis.
- e) To approve minutes of Committee meetings and oversee the quality of the Group's financial reporting.
- f) To perform any other duties or responsibilities expressly delegated to the Committee by the Board.



- g) To review the Group's systems and controls for the prevention of bribery and corruption and receive reports on non-compliance.
- h) To liaise with other Board Committees as necessary.

### **Section 5 - Reporting Procedures**

The Chairperson shall report formally to the Board after each Committee meeting on all significant matters arising at the meeting within its duties and responsibilities and any other issues on which the board has requested the Committee's opinion.

The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

The Committee shall compile a report describing its membership, duties and activities to be included in the Ervia Annual Report. This report shall present the Committee's opinion on the adequacy of internal control systems, the adequacy of risk management and the adequacy of sources of assurances to the Board. The Committee's report in the Ervia Annual Report and the Irish Water Annual Report shall specifically deal with the following issues:-

- a) governance issues;
- b) risk management;
- c) financial reporting; and
- d) quality of internal and external audit.

Ervia Management, the Group Head of Internal Audit and the Group Head of Risk shall ensure that all information relevant to the discharge of its responsibilities, as detailed in these Terms of Reference and as requested by the Committee, is provided to the Committee. Management will also ensure that matters of material concern that are relevant to the Committee's responsibilities are brought to the attention of the Committee promptly.

### **Section 6 - Review**

On an annual basis, the Committee will review its structure, the effectiveness of its operations and, to be overseen by the Chairperson of the Board, the Chairperson and report to the Board on its findings and recommendations to ensure it is operating at maximum effectiveness.

On an annual basis, the Committee will review these terms of reference and make recommendations on updating or amending them to the Board as appropriate.

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