

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE APPROVED BY THE BOARD OF SCOTTISH WATER ON 1ST MAY 2019

The Board has established an Audit Committee as a committee of the Board to support it in its responsibilities for issues of risk, financial reporting, control and governance and associated assurance through a process of constructive challenge.

MEMBERSHIP

The members of the Audit Committee are:

- non-executive members: James Coyle, Iain Lanaghan, Paul Smith and Deirdre Michie

The Audit Committee will be chaired by James Coyle.

The Audit Committee is provided with a secretariat function by Emma Campbell, or in her absence on maternity leave, by Susan Hill.

REPORTING

- The Audit Committee will formally report to the Board and Accountable Officer (Chief Executive Officer) after each meeting. A copy of minutes of the meeting will be provided with the report.
- The Audit Committee will provide the Board and Accountable Officer with an Annual Report, timed to support finalisation of the accounts and the Statement on Internal Control, summarising its conclusions from the work it has done during the year.
- Audit Committee papers will be made available to all Board members.

RESPONSIBILITIES

The Audit Committee will advise the Board and Accountable Officer on:

- the strategic processes for risk, control and governance, the Risk Register and the Statement on Internal Control;
- the accounting policies, the accounts, and the annual report of Scottish Water, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
- the planned activity and results of both Internal Audit and the external auditors;
- the adequacy of management response to issues identified by audit activity, including the external auditor's management letter/report;
- the effectiveness of the internal control environment;
- assurances relating to the corporate governance requirements for Scottish Water;
- the independence of Scottish Water's external auditors and proposals for purchase of non-audit services from Scottish Water's external auditors;
- anti-fraud policies, whistleblowing processes, and arrangements for special investigations;
- Scottish Water's arrangements for complying with any legislation, or directions issued by the WICS, in relation to the operation of the retail market and the annual report prepared by the Compliance Officer;
- such other issues as may be prescribed by the Board of Scottish Water or the Scottish Ministers from time to time;
- applications for the post of and the appointment of the Head of Internal Audit and any proposal to dismiss the postholder;
- whether it considers the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable;

- the annual statement published by Scottish Water under the Modern Slavery Act 2015, setting out the steps taken to ensure that slavery and human trafficking are not taking place in any part of Scottish Water's business or in the supply chain; and
- the annual Tax Strategy, prior to publication of the document on the Scottish Water external internet site.

The Audit Committee will also annually review its own effectiveness and report the results of that review to the Board and Accountable Officer.

RIGHTS

The Audit Committee may:

- co-opt additional members for a period not exceeding a year to provide specialist skills, knowledge and experience; and
- procure specialist ad-hoc advice at the expense of Scottish Water, subject to budgets agreed by the Board or Accountable Officer.

ACCESS

The Head of Internal Audit and the representative of the external auditors will have free and confidential access to the Chair of the Audit Committee. The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee to either attend a meeting or provide written reports. Any employee is entitled to raise any concern directly with a member of the Committee. Any non-executive member of the Board has a right to attend the meetings of the Audit Committee.

MEETINGS

The procedures for meetings are:

- the Audit Committee will meet at least four times a year, usually in March, May, August and December. The Chair of the Audit Committee may convene additional meetings, as he/she deems necessary;
- a minimum of two members of the Audit Committee are required to be present for the meeting to be quorate;
- Audit Committee meetings will normally be attended by the Accountable Officer, the Finance Director, the Head of Internal Audit, the Chair of Scottish Water and, when appropriate, a representative of the external auditors;
- the Audit Committee may ask any other officials of Scottish Water to attend to assist it with its discussions on any particular matter;
- the Audit Committee may ask any or all of those who normally attend but who are not members to withdraw to facilitate open and frank discussion of particular matters; and
- the Board or Accountable Officer may ask the Audit Committee to convene further meetings to discuss particular issues on which they want the Committee's advice.

INFORMATION REQUIREMENTS

As and when appropriate the Committee will be provided with:

- a report summarising any significant changes to Scottish Water's Risk Register;
- a progress report from the Head of Internal Audit summarising:
 - work performed (and a comparison with work planned);
 - key issues emerging from Internal Audit's work;
 - management response to audit recommendations;
 - significant changes to Internal Audit's plan;
 - update on investigations;
 - business performance in implementing audit recommendations; and
 - any resourcing issues affecting the delivery of Internal Audit's objectives.
- a progress report from the external auditors' representative summarising work done and emerging findings;
- the Internal Audit Strategy & Plan;
- the Head of Internal Audit's Annual Opinion and Report;
- the Internal Audit Charter;
- quality assurance reports on the Internal Audit function;
- the draft accounts of Scottish Water;
- the draft Statement on Internal Control;
- a report on any changes to accounting policies;
- the external auditor's management letter/report;
- a report on any proposals to tender for external non-audit advice from the external auditors;
- a report from the external auditors on co-operation with Internal Audit; and
- updates from the Business Ethics Committee.

ADVISERS

The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.