
AUDIT & RISK COMMITTEE CHARTER

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The Water Act (1989) and the *Financial Management Act (1994)* require Westernport Region Water Corporation (WPW) (the Corporation) to establish and maintain a Board Audit and Risk Committee.

This Charter sets out the Audit and Risk Committee (“the Committee”) objectives, authority, composition, roles and responsibilities, procedures, performance, and reporting and administrative arrangements.

1. Purpose

The purpose of the Audit and Risk Committee is to assist the Board in discharging its duties regarding the Corporation’s financial management, risk and control framework and its external accountability responsibilities.

2. Scope

2.1. The Committee is formally appointed by the Board and as such is responsible to the Board. Members are expected to understand and observe the requirements of the *Victorian Government Risk Management Framework* including the *Financial Management Act 1994*, and *Standing Directions, Instructions* and related directives from the Victorian Government.

2.2. The Committee is responsible for the oversight of:

- Financial performance;
- The financial reporting process, including annual financial accounts;
- The scope of work, performance and independence of the internal auditor;
- Ratification of the engagement and dismissal by management of the internal audit provider;
- The scope of work and performance of the external auditor;
- The operation and implementation of the risk management framework;
- Matters of accountability and internal control affecting the operations of the Corporation;
- The acceptability, disclosure of and correct accounting treatment for significant transactions that are not part of the Corporation’s normal course of business;
- The effectiveness of management information systems and other systems of internal control; and
- The sign-off of accounting policies.

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

2.4. The Committee Charter is subservient to the Board Charter; i.e. the Board Charter is the overarching Charter that provides direction to the Board and Committees and each Committee must comply firstly with the Board Charter, and then with the Committee Charter. If in any case the Committee Charter is silent on any matter, the Board Charter presides. In any case of confusion or contradiction, the Board Charter presides.

3. Membership

3.1. The Committee members will be appointed by the Board and:

- Shall consist of at least three independent non-executive Directors and the Board may appoint independent external members. The independent member(s) will not be a non-executive Director of the Corporation nor hold any other responsibilities at the Corporation; and
- The majority of the Committee must be 'independent' members as defined in the *Standing Directions of the Minister for Finance* under the *Financial Management Act 1994*.

3.2. The Board shall appoint the Chair, noting that:

- The Chair shall be a non-executive Director of the Board;
- The Chair of the Board is ineligible of being the Chair of the Committee; and
- Where the Board appointed Committee Chair is not present at a Committee meeting, the Committee must appoint a member of the Committee to preside as Chair.

3.3. The members, taken collectively, will have a broad range of skills and experience relevant to the operations of the Corporation. At least one member of the Committee must have significant expertise in financial accounting or auditing. The Committee should also collectively possess significant skill and knowledge in risk management.

3.4. The Committee will not include the following persons as members:

- The Managing Director
- The Chief Finance Officer
- The Internal Auditor(s)

3.5. In alignment with the Corporate Conflict of Interest Policy an external independent member can be appointed to the Committee provided they:

- Have not been employed in an executive capacity by the Corporation or a related organisation.
- Have not been a Director after ceasing to hold employment in an executive capacity by the Corporation or a related organisation within the last three years;
- Have not been a principal of a material professional advisor or a material consultant to the Corporation or a related organisation, or an employee materially associated with the service provider, within the last three years;
- Are not a material supplier or a material customer of the Corporation, or a related organisation or an officer or otherwise directly or indirectly associated with a material supplier or material customer;
- Have no material contractual relationship with the Corporation or a related organisation other than as Committee member of the Corporation;
- Have not served on the Committee for a period which could, or could reasonably be perceived to materially interfere with the person's ability to act in the best interests of the Corporation; and
- Are free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Committee member's ability to act in the best interests of the Corporation. Materiality should be considered from the perspectives of both Corporation and the individual.

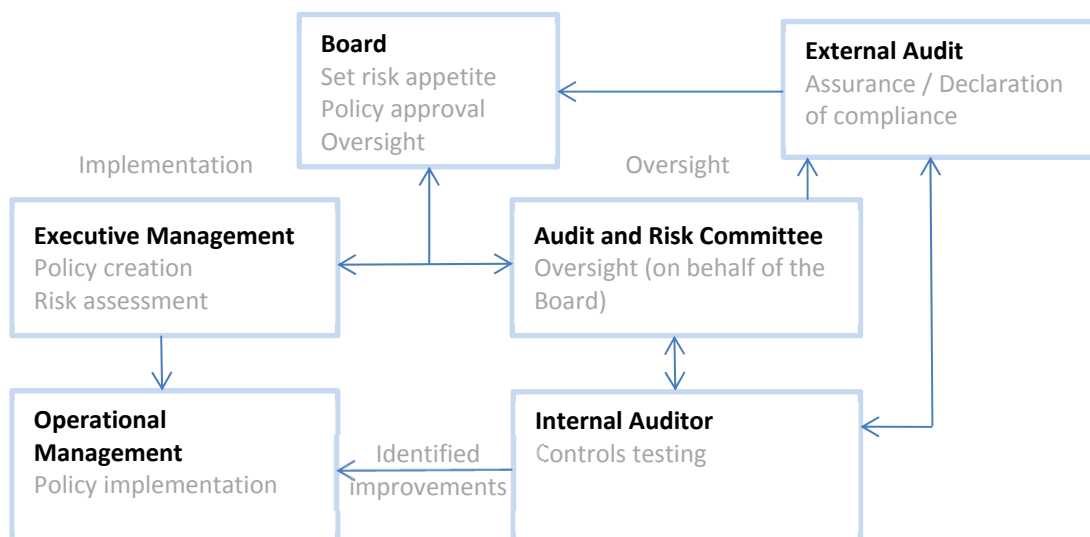
3.6. Membership of the Committee is to be reviewed by the Board on a periodic basis, and at least every three years. Performance of the Committee is to be reviewed annually by the Board and is to include the Committee's own annual performance review.

3.7. Independent Committee members may be appointed for a period of up to three years after which they will be eligible for re-appointment after a formal review of their performance. Members will be progressively rotated to maintain continuity.

4. Authority/Areas of Responsibility

4.1. The delegation of responsibilities to this Committee does not absolve individual Board Directors, or the Board as a whole, from their fiduciary responsibilities.

4.2. The following image outlines the broad areas of responsibility and oversight of this Committee.



4.3. The Audit and Risk Committee's areas of oversight are (further defined in Table 1):

- Financial performance
- Risk management
- Control and compliance framework
- Internal audit
- External audit

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

Table 1: Areas of Oversight

1. Financial Performance	1.1. Review financial management reports to ensure that resources allocated to attaining the Corporation's goals are disbursed in an effective, efficient and responsible manner; 1.2. Oversee the embedding of a culture of financial compliance across the Corporation; 1.3. Review the current areas of greatest financial risk and how these are being managed in the Corporation; 1.4. Review material accounting and reporting issues, including recent professional and regulatory pronouncements, changes to
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	<p>professional accounting and auditing standards, and changes to accounting policy, and understand their impact on the financial statements;</p> <p>1.5. Ensure compliance with the Standing Directions of the Minister for Finance as amended from time to time.</p> <p>1.6. Oversee the financial reporting process implemented by management and review any interim financial statements and annual financial statements prior to their release to determine whether they are complete, reflect appropriate accounting principles, contain appropriate disclosures, and are consistent with the information known to Committee members and recommend to the Board that they be adopted. In discharging this responsibility the Committee will:</p> <p>1.6.1. Ensure accounting policies are consistently applied and any new accounting standards requirements related to the Corporation are appropriately reflected;</p> <p>1.6.2. Pay particular attention to complex and/or unusual transactions including those resulting from government policy changes where applicable;</p> <p>1.6.3. Focus on areas of the financial statements requiring judgment, for example those involving revenue recognition, valuation of assets and liabilities, environmental liabilities, and other commitments and contingencies;</p> <p>1.6.4. Obtain the relevant representations from management as to the preparation of the financial statements; and</p> <p>1.6.5. Discuss with management, material movements in the financial statements between year-end financial reporting periods and from budget and ensure that explanations are consistent with the Committee's understanding of the business.</p> <p>1.7. Review fraud control policies and procedures.</p> <p>1.8. Receive reports from management on all cases of suspected or actual fraud and review and assess action taken or proposed to ensure appropriate levels of control are maintained.</p> <p>1.9. Require any and all incidents of fraud and plans to remedy it to be reported both through the ARC and to Government (the Minister, Department and Auditor General).</p>
<p>2. Risk Management</p>	<p>2.1. Review the Corporation's policy for the oversight and management of business risks;</p> <p>2.2. Provide oversight and annual review of management's enterprise risk management framework (including policies, objectives, plans, resources, accountabilities, processes and activities);</p> <p>2.3. Provide oversight of the establishment and implementation of the Corporation's risk management system;</p> <p>2.4. Ensure that the Corporation identifies, reviews and regularly updates the profile of the principal strategic, operational and financial risks;</p> <p>2.5. Review trends in the Corporation's risk profile and the status of the risk management process;</p> <p>2.6. Monitor management performance in implementing risk management processes and systems; and evaluate the</p>



	<p>adequacy and integrity of key risk controls;</p> <p>2.7. Provide oversight of the annual review and update of the Corporation's risk profile and provide the Board with an opinion to confirm or otherwise the Responsible Officer's attestation regarding compliance with the mandatory requirements of the Victorian Government Risk Management Framework;</p> <p>2.8. Review the adequacy of the Corporation's Insurance program; and;</p> <p>2.9. Review the adequacy of the Corporation's Business Continuity Policies and Procedures</p>
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3. Control and Compliance Framework	<p>3.1. Periodically review the Corporation's internal controls, including policies, procedures, processes and delegations;</p> <p>3.2. Annually review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance;</p> <p>3.3. Ensure that all allegations of non-compliance with legislation and policies (including those related to fraud and corruption, conflicts of interest, travel and gifts, benefits and hospitality) are investigated;</p> <p>3.4. Obtain regular updates from management regarding compliance matters that may have a material impact on the Corporation's reputation or financial statements;</p> <p>3.5. Review Audit Action Items to satisfy itself such matters are progressing and when complete recommend to the Board Action Items be closed.</p> <p>3.6. Make appropriate enquiries to satisfy itself that all regulatory compliance matters related to the business of the Corporation, have been considered in the preparation of the financial statements;</p> <p>3.7. Review the findings and recommendations of any examinations by Regulatory Agencies; and</p> <p>3.8. Ensure any and all theft and losses of significant and systemic incidents are reported as soon as practical to DELWP and DTF.</p>
4. Internal Audit	<p>4.1. Review and approve the Corporation's Internal Audit Charter in-line with the Board policy review schedule.</p> <p>4.2. Manage the procurement, scope of works, performance and quality of the Internal Audit Service Provider (Internal Auditor).</p> <p>4.3. Ratify the engagement and dismissal by management of the Internal Auditor.</p> <p>4.4. Work through the internal auditor to:</p> <ul style="list-style-type: none"> • Review the adequacy and focus of the internal audit work plan and its fit with the Corporation's risk profile and the work of external auditors; • Review the performance of the internal audit function, its authority, the adequacy of its resources and the proposed allocation of those resources; • Take steps to confirm that the internal auditor has not been unduly influenced by management or experienced any problems with management; and • Meet separately and privately with management and the internal auditors if necessary to ensure free, frank and open communications. <p>In addition the Committee should make appropriate enquiries to:</p> <p>4.5. Monitor key risks and trigger events, including prevention and investigation of fraud, ethical culture, protection of assets and insurance;</p> <p>4.6. Approve and review management's proposals as to how the Corporation plans to respond to advice received from the internal auditor, and direct management accordingly;</p> <p>4.7. Monitor actions taken by management to resolve issues raised</p>

	<p>by the internal auditor;</p> <p>4.8. Advise management to adopt and address the accepted recommendations from the internal auditor including remedial actions to mitigate future instances of non-compliance on a timely basis;</p> <p>4.9. Review all audit reports and provide advice to the Board on significant issues identified and action taken on issues raised, including identification and dissemination of good practice;</p> <p>4.10. Ensure that the internal audit work plan periodically includes a detailed analysis of the effectiveness of the Corporation's risk management, internal compliance and control system over a four year cycle; and</p> <p>4.11. Provide advice to the Board on the appointment and ongoing engagement of the outsourced internal audit provider.</p>
<p>5. External Audit</p>	<p>5.1. Review the proposed external audit scope and approach each year in light of any changes to business circumstances and regulatory requirements;</p> <p>5.2. Discuss with the external auditor any audit issues encountered in the normal course of audit work, including any restriction on scope or access to information;</p> <p>5.3. Consider all external audit reports and ensure that significant findings and recommendations made by the external auditor, and management's proposed responses to them, are appropriate and acted upon in a timely manner;</p> <p>5.4. Monitor actions taken by management to resolve issues raised by external audit;</p> <p>5.5. Recommend how the Board should act on advice received from external auditors and ensure management take appropriate action; and</p> <p>5.6. Meet with the external auditor at least annually in the absence of management to ensure there is open communication between the Committee and the external auditor on relevant matters.</p>

5. Meetings:

- 5.1. As a minimum, the Committee is to meet not less than four times per annum. Additional meetings may also be held where the Chair, the Managing Director or a member of the Committee deems this to be necessary. The Committee may also agree to conduct an out-of-session review and endorsement or approval of item(s), where appropriate, which will be coordinated by the Committee's Secretary and may be facilitated through the use of email or other suitable electronic media. Out-of-session decisions should be documented and included in the next scheduled Committee meeting.
- 5.2. A meeting agenda and supporting documentation will be provided to members at least five working days prior to each meeting.
- 5.3. The proceedings of all meetings will be minuted to reflect work done by the Committee to address its roles and discharge its responsibilities. Minutes must be approved by the Chair and circulated prior to the following meeting to each member and Committee observers as appropriate. The Chair will sign the minutes upon their

acceptance by the Committee. The minutes are to be provided to the Board at the earliest meeting of the Board after each Committee meeting.

5.4. There shall be a minimum of two members present at any meeting of the Committee to constitute a quorum. The Committee will establish an annual calendar of agenda items. The Board Secretary will be the primary management linkage for the Committee in relation to the audit responsibilities of the Committee.

5.5. The Committee shall determine the Officers who attend meetings. The Managing Director, General Manager Corporate and People, the Finance Manager/CFO, internal auditors and external auditors are to attend relevant aspects of meetings by standing invitation.

5.6. In alignment with the Corporate Conflict of Interest Policy, Committee members must declare any conflicts of interest at the start of each meeting or before 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 it may be appropriate that they are excused from Committee deliberations on the issue where a conflict of interest exists.

5.7. The Committee will meet privately with the External Auditor at least twice per year.

5.8. The Committee will meet privately with the Internal Auditor at least once a year.

6. Reporting:

6.1. The Committee reports directly to the Board on all matters within its Charter and provides advice and recommendations to facilitate decision-making by the Board and management.

6.2. The Chair of the Committee will report issues of concern direct to the Chair of the Board as they arise.

6.3. The Chair of the Committee will report at least annually to the Board on how the Corporation has performed from an internal audit and corporate governance perspective.

6.4. The Chair of the Committee will provide the Board with an endorsement in relation to the annual Financial Statements and verification to support the Risk Management Attestation.

7. Performance:

7.1. All members of the Committee are required to take appropriate and timely action to ensure they have the requisite understanding of the water industry structure and the Corporation's position within it and its operations and financial management risks to enable them to discharge their responsibilities.

7.2. Members who do not have the requisite level of financial literacy and/or industry knowledge at the time of their appointment must raise their competence in the first six months of membership.

7.3. New members will be inducted to the Committee by the Managing Director and Committee Secretary.

8. Review:

This Charter is to be reviewed by this Committee every three years. This Charter will continue in operation until replaced by a subsequent version or rescinded.