



## **Audit and Finance Committee**

### **Terms of Reference**

#### **1. Constitution**

- 1.1 The Audit and Finance Committee is a committee of the Bazalgette Tunnel Limited (the Company) Board (the Board).
- 1.2 The Audit and Finance Committee's terms of reference may be amended at any time by the Board in consultation with the Audit and Finance Committee where possible.
- 1.3 The Audit and Finance Committee may from time to time investigate, discuss or review matters outside its terms of reference if required to do so by the Board.

#### **2. Membership and appointment**

- 2.1 The Board shall appoint the Audit and Finance Committee. The Audit and Finance Committee shall comprise not less than three members and the majority of members of the Audit and Finance Committee shall be independent non-executive directors of the Company.
- 2.2 Each Shareholder Director shall have the right to appoint its Shareholder Director as a member to the Committee.
- 2.3 The Board shall appoint the Chair of the Audit and Finance Committee from amongst the independent non-executive directors. The Board Chair may not be a member of the Audit and Finance Committee.
- 2.4 A quorum shall be three members, and shall include at all times (a) one Shareholder Director; (b) one independent Non-Executive Director; and (c) the Chair of the Audit and Finance Committee. Where the Chair is also an independent Non-Executive Director, they shall only count towards one of the three required members. One member of the Audit and Finance Committee should have recent and relevant financial experience. A Shareholder Director or independent Non-Executive Director shall have the ability to waive their right to need to be present for quorum requirements or to give a proxy to another Director or Shareholder representative. A meeting shall not proceed with only one member.
- 2.5 The Audit and Finance Committee as a whole should have competence relevant to the sector in which the company operates.
- 2.6 Appointments to the Audit and Finance Committee shall be for a period of up to three years or to the end of the relevant director's term of appointment, whichever is shorter, and may be extended for further periods of up to three years, provided the director still meets the criteria for membership of the Audit and Finance Committee.

#### **3. Secretary**

- 3.1 The Deputy Company Secretary of the Board shall be the Secretary of the Audit and Finance Committee.

#### **4. Attendance at meetings**

- 4.1 The Chair shall invite all Directors to attend Audit and Finance Committee meetings, together with any other attendees as the Chair may consider appropriate from time to time.

#### **5. Frequency of meetings**

- 5.1 Meetings shall be held not less than three times a year (to coincide with key dates in the financial reporting cycle for the Company) and otherwise as required.
- 5.2 The external auditor may request a meeting if they consider that one is necessary.

#### **6. Notice of meetings**

- 6.1 Meetings of the Audit and Finance Committee shall be called by the Secretary of the Audit and Finance Committee at the request of any of its members or at the request of the external or internal auditors if they consider it necessary.
- 6.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the Audit and Finance Committee, any other person required to attend, no later than five working days before the meeting, unless otherwise agreed with the Chair.

#### **7. Minutes of meetings**

- 7.1 The Secretary shall minute the proceedings and decisions of all meetings of the Audit and Finance Committee, including recording the names of those present and in attendance.
- 7.2 The key matters considered at Audit and Finance Committee meetings shall normally be summarised by the Chair of the Audit and Finance Committee at the Board meeting following the Audit and Finance Committee meeting, unless in the opinion of the Chair of the Audit and Finance Committee it would be inappropriate to do so.

#### **8. Duties**

- 8.1 The duties of the Audit and Finance Committee shall be:

##### *Financial and Regulatory reporting*

- To review, and challenge where necessary, the actions and judgements of management, in relation to the Company's financial statements, operating and financial review, interim reports, half-yearly accounts, preliminary announcements and related formal statements before submission to, and approval by, the Board, and before clearance by the auditors. Particular attention should be paid to:
  - Critical accounting policies and practices, and any changes in them;
  - Decisions requiring significant elements of judgment, estimate or uncertainty;
  - The extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
  - The clarity of disclosures;
  - Significant adjustments resulting from the audit;
  - The going concern assumption;
  - Compliance with accounting standards; and
  - Compliance with other legal requirements.

- To review, and challenge where necessary, the actions and judgements of management, in relation to the Company's regulatory accounts before submission to, and approval by, the Board.
- To review, and challenge where necessary, the actions and judgements of management, in relation to the Company's Risk and Compliance Statement before submission to, and approval by, the Board.
- To review, and challenge where necessary, the actions and judgements of management, in relation to the Long Term Viability Statement submission to, and approval by, the Board.
- To review and challenge where necessary the actions and judgements of management, in relation to the Company's Compliance Certificate and Investor Report, before submission to and approval by the Board.
- To review, and challenge where necessary, the actions and judgements of management, in relation to the Company's material financial and regulatory submissions to Ofwat or any other external stakeholder, including but not limited to, those submissions which relate to any Remedy Event, Failure Event, Default or Trigger Event under the Financing Documents and Government Support Package.
- To consider other topics, as defined by the Board.

#### *Internal control and risk management*

- To review the Company's procedures for detecting fraud, bribery & corruption and whistle blowing and ensure the arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matter of financial reporting, financial control or any other matters;
- To review management's and the internal auditor's reports on the effectiveness of the systems for internal control across the Company, financial reporting and risk management;
- To monitor the integrity of the Company's internal financial controls;
- To review the statement in the annual report and accounts on the Company's internal controls and risk management framework; and
- To assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks.

#### *Internal audit*

- To review and challenge (under the "Three Lines of Defence" model) the internal control processes across the Company to ensure they exist and are effective.
- To monitor and review the effectiveness of the Company's internal audit function in the context of its overall risk management system;
- To approve the appointment and removal of the internal auditor;
- To review and assess the annual internal audit plan;
- To review reports from the internal auditor to the Audit and Finance Committee;
- To review and monitor the executive's reaction to the findings and recommendations of the internal auditor;
- To meet the Head of Internal Audit at least once a year, without the executive being present, to discuss the remit and any issues arising from the internal audits carried out; and
- The Head of Internal Audit shall be given the right of direct access to the chair of the Board and to the Audit and Finance Committee.

### *External audit*

- To consider and make recommendations to the Board in relation to the appointment, re-appointment and removal of the Company's external auditor.
- The Audit and Finance Committee shall oversee the selection process for a new auditor and, if an auditor resigns the Audit and Finance Committee shall investigate the issues leading to this and decide whether any action is required;
- To review and monitor the external auditor's independence, objectivity and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
- To oversee the relationship with the external auditor including (but not limited to):
  - i. recommendations on their remuneration, whether fees for audit or non-audit services, and that the level of fees is appropriate to enable an adequate audit to be conducted;
  - ii. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - iii. satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company representatives (other than in the ordinary course of business);
  - iv. monitoring the auditor's compliance with relevant legal, ethical and professional guidance on the rotation of audit partner, provision of Non-Audit Services, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements; and
  - v. seeking to ensure co-ordination with activities of the internal auditor;
- To meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Audit and Finance Committee shall meet the external auditor at least once a year, without the executive being present, to discuss the auditor's remit and any issues arising from the audit;
- To review and approve the annual audit and ensure that it is consistent with the scope of the audit engagement;
- To review the findings of the audit with the external auditor. This shall include:
  - i. a discussion of any major issues which arose during the audit;
  - ii. any accounting and audit judgements;
  - iii. levels of errors identified during the audit; and
  - iv. the effectiveness of the audit;
- To review the management letter and management's response to the auditor's findings and recommendations;
- To develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

### *Compliance, review, assurance, whistleblowing and fraud*

- To review the adequacy and security of the Company's arrangements for its employees and its contractors to raise concerns, in confidence through the whistleblowing process, about possible wrongdoing in financial reporting or other matters. The Audit and Finance Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- To review the Company's regulatory compliance;

- To review the Company's procedures for detecting fraud; and
- To review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

### *Treasury and finance*

- To review and present the Treasury Policy to the Board for approval.
- To review and present the Treasury Strategies that support the implementation of the Treasury Policy to the Board for approval.
- To review and recommend the annual Treasury business plan to the Board for approval.
- To monitor Treasury performance.
- To review the result of the annual ratings process and any potential developments that may impact the credit rating of the Company.
- To review and present to the Board any funding, hedging or investment.
- To review and present to the Board any prospectus or other listing document required in relation to the issuance of any capital markets instruments or any formal information memorandum in relation to borrowing by any member of the group.
- To review and present to the Board any material change, amendment or variation to any of the financing arrangements of the Company or any request for any waiver thereunder.
- To monitor compliance with financial covenants included in the Equity Documents, Project Licence, the Project Documents and the Finance Documents.

## **9. Reporting Procedures**

- 9.1 On financial matters the Audit and Finance Committee shall make recommendations and report to the Board on a regular basis and in any event, when such reports or recommendations are requested by the Board. On all other matters the Audit and Finance Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.2 The Audit and Finance Committee shall produce a report on its activities for inclusion in the directors' annual report.

## **10. Other matters**

- 10.1 The Audit and Finance Committee shall have access to sufficient resources to carry out its duties, including access to the executive management team of the Company; relevant written materials and other communications; and also access to the Deputy Company Secretary for assistance as required.
- 10.2 The Audit and Finance Committee shall be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing informal basis for all members.
- 10.3 The Audit and Finance Committee shall be responsible for co-ordination of the internal and external auditors.
- 10.4 The Audit and Finance Committee shall oversee any investigation of activities which are within its terms of reference.
- 10.5 The Audit and Finance Committee shall arrange for periodic reviews of its own performance and, at least annually, review its constitution and its terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

## **11. Authority**

- 11.1 The Audit and Finance Committee is authorised by the Board to obtain, at the Company's expense and in consultation with the Chair of the Board and/or the Chief Executive, outside financial, legal, accounting, tax or other professional advice on any matters within its terms of reference.