

# HYDRO-ELECTRIC CORPORATION

## Audit Committee

### Terms of Reference

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#### **1 OBJECTIVES**

To assist the Board in carrying out its duties and responsibilities as they relate to the Corporation's accounting policies; financial and performance reporting practices; the assurance process; the system of internal control and risk oversight; and the process for monitoring compliance with laws, regulations and corporate policies.

#### **2 MEMBERSHIP**

- 2.1 The membership of the Audit Committee (Committee) will comprise no less than two (2) non-executive directors, each of whom must have appropriate qualifications, skills or experience to assist the Committee to perform its functions.
- 2.2 Members will be appointed by the Board.
- 2.3 The Chair of the Committee will be a non-executive director, other than the Board Chair.
- 2.4 Any director who is not a Committee member is permitted to attend Committee meetings and will have access to all Committee papers. Such attendees will not have voting rights.
- 2.5 The terms of appointment of members are at the discretion of the Board.
- 2.6 As a minimum, the Committee will have at least one member with accounting and related financial expertise.
- 2.7 A quorum for meetings of the Committee will be two (2) members. In the absence of the Committee Chair, the remaining Committee members will elect one of their members to chair the meeting.
- 2.8 The Committee Secretary will be the Head of Internal Audit and Assurance or other suitable person appointed by the Committee.
- 2.9 The Chief Executive Officer, EGM Finance and EGM Governance have a standing invitation to attend meetings.

#### **3 DUTIES AND RESPONSIBILITIES**

##### **3.1 Accounting Policies and Financial Reporting**

The Committee will:

- (a) review the adequacy of the Corporation's corporate reporting processes, including conformance to relevant accounting and reporting standards;
- (b) consider and review the appropriateness of the accounting policies, judgements or choices exercised by management in preparing the Corporation's financial statements;
- (c) require management to advise on:
  - whether the methods chosen by management are consistent with the applicable financial reporting framework;
  - any changes in significant accounting policies or their application during the reporting period;
  - the methods used to account for significant unusual transactions;
- (d) review any matters that may significantly affect the financial condition or affairs of the Corporation;
- (e) assess information from external auditors that affect the quality of financial reports, including but not limited to, actual and potential material audit adjustments, financial report disclosures, non-compliance with laws and regulations and internal control issues;
- (f) obtain and review all representation letters signed by management to assess whether the information appears complete and appropriate as to the preparation of financial statements;
- (g) make representations on behalf of the Board to external auditors regarding the financial report; and
- (h) recommend to the Board whether the financial report should be approved based on the Committee's assessment.

### 3.2 **Systems of Internal Control and Risk Management**

The Committee will:

- (a) evaluate and monitor the adequacy of the Corporation's processes of internal control and risk management;
- (b) oversee the development and maintenance of effective systems of accounting and internal control, including information systems and security;
- (c) review key findings from the reports from internal audit and other assurance providers regarding the effectiveness of systems of internal control and risk management and the actions proposed by management in response;
- (d) monitor the status of management actions to address deficiencies and improve systems of internal control and risk management practices;
- (e) review key findings from post implementation reports from significant projects and the learnings identified and, where appropriate, report to the Board;

- (f) monitor compliance with financial risk management policies and report to the Board on any relevant issues;
- (g) monitor that financial delegations provided to management by the Board are being exercised appropriately; and
- (h) evaluate and monitor the Corporation's exposure to fraud.

### 3.3 **Monitoring Compliance with Laws, Regulations and Corporate Policies**

The Committee will:

- (a) review the compliance management framework, including the principles and approach to identifying and assessing compliance obligations (compliance planning), and incident and breach management;
- (b) evaluate and monitor the adequacy of the Corporation's processes for compliance with laws, regulations, and corporate policies and report to the Board on any material issues;
- (c) review and endorse the Corporation's quarterly compliance reports, including details of material compliance breaches and actions taken;
- (d) review key findings from reports from internal audit and other assurance providers regarding compliance with laws, regulations, corporate policies and the actions proposed by management in response;
- (e) review findings from investigations into significant compliance incidents and failures of internal control; and
- (f) evaluate and monitor compliance with the Corporation's Code of Conduct and oversee procedures for receiving, retaining and treating complaints dealing with compliance with laws, regulations and ethical behaviour.

### 3.4 **External Audit**

The Committee will:

- (a) regularly evaluate and report to the Board on the performance and independence of the external auditor;
- (b) approve the appointment of the external auditor, including the audit fee and any non-audit services, acknowledging that the *Audit Act 2008 (Tas)* prescribes the Tasmanian Auditor-General as the Corporation's external auditor, who may sub-contract external audit work to an external firm;
- (c) review and monitor the scope and adequacy of the external audit plan, including proposed audit strategies particularly in identified risk areas, audit results and implications of control environment findings and report to the Board on any issues arising out of those reports ensuring that the required disclosures by the external auditor are made to the Committee within the required timeframes;

- (d) oversee the work of the external auditor, including approving in advance any non-audit assignments by the external auditors on behalf of the Corporation; and
- (e) resolve any disagreements between management and the auditor regarding financial reporting.

### 3.5 **Internal Audit**

The Committee will:

- (a) ensure the internal audit function is appropriately resourced and approve the appointment, compensation, removal or replacement of the Head of Internal Audit and Assurance and co-sourced internal audit service providers;
- (b) review and approve the operational model to deliver the internal audit function within the Corporation;
- (c) review annually internal audit's mission, charter, resources and budget to ensure the effectiveness, objectivity and performance of the internal audit function;
- (d) review and approve the strategic internal audit plan and annual work program, taking into consideration internal audit requests from other Committees;
- (e) review the progress of the annual internal audit plan; and
- (f) oversee the operations of the internal audit activity and monitor the quality of internal audit services delivered.

### 3.6 **Governance Policy**

The Committee will review the Governance Policy every three years, or more frequently where required by law, and endorse any revision to the Policy for submission to the Board for approval.

## 4 **RESOURCES**

- 4.1 The Committee is empowered to conduct or authorise investigations into any matters within its scope of responsibility. It may retain independent external advisors as it considers necessary to advise the Committee.
- 4.2 The Committee may require the Head of Internal Audit and Assurance, EGM Finance or the EGM Governance to undertake tasks to assist the Committee to carry out its functions.
- 4.3 The Committee may at its discretion require the attendance of management representatives as necessary at meetings and has unrestricted access to employees and relevant company information.

## **5 GENERAL**

- 5.1 The Chair of the Committee will report verbally to the Board following each meeting to provide a summary of the Committee's work and results. The Committee Secretary will retain minutes of proceedings and resolutions of Committee meetings and ensure they are included in subsequent Board meeting papers.
- 5.2 The Committee will meet at least four times per annum.
- 5.3 The Committee may meet, with or without management present, at any time with external and internal auditors, the Auditor-General, Head of Internal Audit and Assurance, EGM Governance and other external advisors.
- 5.4 The Head of Internal Audit and Assurance, any internal audit service provider, EGM Governance, EGM Finance, Chief Executive Officer and the Auditor-General have direct access to the Committee Chair to report matters of immediate concern within their respective area of responsibility.
- 5.5 The Committee may initiate, after consultation with the Chair of the Board, any investigation that is reasonably necessary to discharge its responsibilities and the cost of any such investigation will be borne by the Corporation.
- 5.6 The Committee will ensure that the Terms of Reference are reviewed on a biennial basis to ensure its currency and relevance. Any proposed changes will be recommended to the Board for its approval.
- 5.7 The Committee will ensure that its performance is assessed on an annual basis and report the results to the Board. This may take the form of a self-assessment process.