

**ELECTRICITY NORTH WEST LIMITED**  
**(the “Company” registered number 6845434)**  
**Audit Committee**  
**Terms of Reference**

## **1. Membership**

1.1 Members of the Committee shall be appointed by the Board in consultation with the Chairman of the Audit Committee.

The Committee shall be made up of at least three members of the Board including a Chairman nominated by the Board.

1.2 All members of the Committee shall be non-executive directors, at least one of whom shall have recent and relevant financial experience, ideally with a professional qualification from one of the professional accountancy bodies.

The Chairman of the Board can be a member of, but not chair, the Committee, provided he or she was considered independent on appointment.

1.3 Only members of the Committee have the right to attend Committee meetings. However, the Chairman of the Board, Chief Executive Officer, Chief Financial Officer, the Head of Risk, Control and Assurance and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate.

1.4 The external auditors will be invited to attend meetings of the Committee on a regular basis and there should be at least one meeting a year, or part thereof, where the external and internal auditors attend without management present.

1.5 Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three year periods, so long as members continue to be independent.

1.6 The Board shall appoint the Committee Chairman who shall be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

## **2. Secretary**

2.1 The Company Secretary of Electricity North West Limited or his or her nominee shall act as the Secretary of the Committee and shall ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

## **3. Quorum**

3.1 The quorum necessary for the transaction of business shall be two members to include one representative of each shareholder group. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

## **4. Frequency of meetings**

4.1 The Committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.

4.2 The external auditors or internal auditors may request a meeting if they consider that one is necessary.

4.3 Outside of the formal meeting programme, the Committee Chairman will maintain a dialogue with key individuals involved in the Company's governance, including the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the external audit lead partner and the Head of Risk, Control and Assurance.

## **5. Notice of meetings**

5.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or at the request of external or internal auditors if they consider it necessary.

5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than 5 working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

## **6. Minutes of meetings**

6.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.

6.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

6.3 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless a conflict of interest exists or it would be inappropriate to do so in the opinion of the Committee Chairman.

## **7. Annual General Meeting**

7.1 If an Annual General Meeting is held, the Chairman of the Committee shall attend to respond to any shareholder questions on the Committee's activities.

## **8. Duties**

The Committee should carry out the duties below for the parent Company, major subsidiary undertakings and the group as a whole, as appropriate.

### **8.1 Financial reporting**

8.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor. The Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.

8.1.2 the Committee shall review and challenge where necessary:

8.1.2.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/group;

8.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;

8.1.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

8.1.2.4 the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;

8.1.2.5 all material information presented with the financial statements, such as the strategic report, business review, the going concern assumption and the corporate governance statement (insofar as it relates to the audit, treasury and risk management); and

8.1.2.6 compliance with best practice in the area of corporate governance.

8.1.3 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

## 8.2 Narrative reporting

Where requested by the Board, the Committee should review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

## 8.3 Internal controls and risk management systems

The Committee shall:

8.3.1 keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems; and

8.3.2 review and approve the statements to be included in the annual report concerning internal controls and risk management.

## 8.4 Compliance, whistleblowing and fraud

The Committee shall:

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

8.4.2. review the Company's procedures for detecting fraud;

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

8.4.4. receive and review reports of any actual or suspected financial misconduct, fraud or bribery and any resulting action taken by the Company.

## 8.5 Internal audit

The Committee shall:

8.5.1 monitor and review the effectiveness of the Company's internal audit function and activities in the context of the Company's overall risk management system;

8.5.2 approve the appointment or termination of appointment of the head of the internal audit function;

8.5.3 consider and approve the remit of the internal audit function, agree its annual budget and ensure it has adequate resources and appropriate access to information to enable it to perform its function

effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;

8.5.4 ensure the internal auditor has direct access to the Chairman of the Board and the Committee Chairman and is accountable to the Committee;

8.5.5 review and assess the annual internal audit plan;

8.5.6 receive reports on the results of the internal auditor's work on a periodic basis;

8.5.7 review promptly all reports on the Company from the internal auditors;

8.5.8 review and monitor management's responsiveness to the findings and recommendations of the internal auditor;

8.5.9 meet the Head of Risk, Control and Assurance at each of its meetings to discuss their remit and any issues arising from the internal audits carried out. In addition, Head of Risk, Control and Assurance shall be given the right of direct access to the Chairman of the Board and to meet with the Chairman of the Committee quarterly on a one to one basis; and

8.5.10 monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system.

## 8.6 External Audit

The Committee shall

8.6.1 consider and make recommendations to the Board, to be put to shareholders for approval at the AGM if one is held, in relation to the appointment, re-appointment and removal of the Company's external auditor;

8.6.2. ensure that it keeps under review the appropriate timing of an external audit services tender in line with best practice, statutory requirements and to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such assess as is necessary to information and individuals during the duration of the tendering process;

8.6.3 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;

8.6.4 oversee the relationship with the external auditor including (but not limited to):

8.6.4.1 recommending 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;

8.6.4.2 approving their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

8.6.4.3 assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;

8.6.4.4 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;

8.6.4.5 agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;

8.6.4.6 monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;

8.6.4.7 assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;

8.6.4.8 seeking to ensure co-ordination with the activities of the internal audit function. ; and

8.6.4.9 evaluating the risks to the quality and effectiveness of the financial reporting process and considering the risk of the withdrawal of the Company's present auditor from the market in that evaluation; and

8.6.4.10 influencing the appointment of the audit engagement partner.

8.6.5 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 Committee shall meet the external auditor at least once a year, without management being present; to discuss their remit and any issues arising from the audit;

8.6.6 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement having regard to the seniority, expertise and experience of the audit team; and

8.6.7 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:

8.6.7.1 a discussion of any major issues which arose during the audit;

8.6.7.2 any accounting and audit judgements;

8.6.7.3 levels of errors identified during and significant adjustments resulting from the audit;

8.6.7.4 the effectiveness of the audit process;

8.6.7.5 review any representation letter(s) requested by the external auditor before they are signed by management;

8.6.7.6 review the management letter and management's response to the auditor's findings and recommendations; and

8.6.7.7 develop and implement a policy on the supply of non-audit services by the external auditor and, where a tender has taken place, any replacement auditor who has not yet taken office to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter. In the years leading up to a tender, the Committee shall also monitor the type and contract terms of non-audit services carried out by other potential audit firms in order to check whether a suitable range of candidates will be available.

## 8.7 Treasury

8.7.1 To ensure that the Treasury function within the group is effective and to approve Treasury Transactions as defined (and permitted) by the banking activity agreements binding on subsidiaries;

8.7.2 Ensuring that cash for the time being held by the group and not required or available for immediate working capital purposes is suitably invested (in the manner permitted by the banking facility agreements) with parties of appropriate credit rating and otherwise in accordance with the obligations binding on the group;

8.7.3 Ensuring that efficient and effective systems are in place and are effectively operated to forecast, at intervals determined by the Committee, the cash flows of the group and to ensure that cash flow is managed so that working capital requirements are compatible with the Board's objectives and the requirements of the group's banking facilities; and

8.7.4 Ensuring compliance with the provisions of the group's banking facilities.

## **9. Reporting responsibilities**

9.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report within the Company's annual report how it has discharged its responsibilities. This report shall include:

9.1.1 the significant issues that it considered in relation to the financial statements and how these were addressed, having regard to matters communicated to it by the auditor;

9.1.2 an explanation of how the Committee has assessed the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor, including information on the length of tenure of the current audit firm and when the last tender was conducted;

9.1.3 an explanation of how auditor objectivity and independence is safeguarded in the light of non-audit services provided;

9.1.4 a statement of compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Process and Audit Committee Responsibilities) Order 2014; and

9.1.5 any other issues on which the Board has requested the Committee's opinion.

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

9.4 In compiling the reports referred to above, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

## **10. Other matters**

The Committee shall:

10.1 have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;

10.2 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;

10.3 give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules as appropriate;

10.4 be responsible for co-ordination of the internal and external auditors;

10.5 oversee any investigation of activities which are within its terms of reference

10.6 work and liaise as necessary with all other Board Committees; and

10.7 arrange for periodic review of its own performance and, at least annually, review its constitution and 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**

The Committee is authorised to:

11.1 investigate any activity within its terms of reference;

11.2 seek any information it requires from any employee of the Company in order to perform its duties;

11.3 obtain, at the Company's expense, independent legal or other professional advice on any matter it believes it necessary to do so;

11.4 call any employee to be questioned at a meeting of the Committee as and when required; and

11.5 have the right to publish in the Company's annual report, details of any issues that cannot be resolved between the Committee and the Board.

*January 2017*