

**TERMS OF REFERENCE**  
**AUDIT & RISK COMMITTEE (THE “COMMITTEE”)**

**1. MEMBERSHIP**

- a. The Board of Directors of ESB (the “Board”) shall, in consultation with the Chairman of the Committee, appoint the members of the Audit and Risk Committee (the “Committee”). All members of the Committee shall be independent non-executive directors of ESB. The Committee shall consist of not less than three members. Appointments to the Committee should be for a period of five years which may be renewed for a further five years, up to a maximum of ten years in total. A quorum shall be two members.
- b. The Board shall appoint the Chairman of the Committee from amongst the independent non-executive directors. A Board member, other than the Chairman of the Board, should chair the Committee.
- c. At least one member of the Committee should have recent and relevant financial experience, and all should have relevant business and career experience.
- d. There should be a standard letter of appointment for each new Audit and Risk Committee member setting out:
  - i. role of the Audit and Risk Committee;
  - ii. duration of appointment and renewal provisions;
  - iii. support and training to be provided;
  - iv. the time commitment involved;
  - v. level of remuneration (where appropriate);
  - vi. rules regarding conflict of interests;
  - vii. performance management arrangements; and
  - viii. termination arrangements.
- e. Members should have or acquire after appointment an understanding of the Company and its strategy and values, its organisation structures including key stakeholder relationships and of the Company’s legal and governance framework.

**2. SECRETARY, MINUTES AND CONFLICTS OF INTEREST**

- a. The Secretary of ESB shall be the Secretary of the Committee.
- b. The Secretary of the Committee shall minute the proceedings and decisions of all meetings of the Committee.

- c. Draft minutes of Committee meetings shall be circulated promptly to all Committee members. Once approved by the Committee minutes should be circulated to all other members of the Board unless, in the Committee Chairman's opinion, it would be inappropriate to do so.
- d. The process for recording declarations of conflicts of interest in the Committee shall be the same as at Board level.

### **3. ATTENDANCE AT MEETINGS**

- a. No one other than the Committee members shall be entitled to attend Committee meetings.
- b. The Chairman and other non-executive directors may be invited to attend and may also request to attend meetings of the Committee.
- c. The Chief Executive, Deputy Chief Executive, Executive Director Group Finance and Commercial, other Directors, the Head of Internal Audit and representatives from the finance, risk and compliance functions may be invited to attend all or part of any meeting as and when appropriate. Representatives of the external auditors should be requested by the Committee Chairman to attend for specific meetings of the Committee or agenda items except for any meetings or part of meetings which the Chairman of the Committee wishes to reserve for Committee members only. The Committee may from time to time invite other persons to attend at all or part of and/or to present to, the Committee.
- d. At least once per calendar year the Committee should meet (i) the external auditors and (ii) the internal auditors without executive Board members present. This need not be the same meeting.

### **4. FREQUENCY OF MEETINGS**

- a. Meetings shall be held not less than four times a year (to coincide with key dates in ESB's financial reporting cycle).
- b. External auditors, internal auditors or senior management may request a meeting if they consider that one is necessary.

### **5. AUTHORITY**

The Committee is authorised by the Board to:

- a. Investigate any activity within these Terms of Reference.

- b. Seek any information that it requires from any employee of ESB Group<sup>1</sup> and all employees are directed to co-operate with any request made by the Committee.
- c. Obtain outside legal or independent professional advice, at ESB's expense, and secure the attendance of outsiders with relevant experience and expertise if it considers this to be necessary.
- d. Exercise Board's delegated authority when authorised.

## 6. DUTIES

The duties of the Committee shall be as follows:

### a. Financial Reporting

- i. The Committee shall monitor the integrity of the annual and half-yearly financial statements of ESB, and the annual financial statements of ESB Finance DAC, reviewing and reporting to the Board on all significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the external auditor.

In particular, the Committee shall review and challenge where necessary:

- a. the consistency of, and any changes to, significant accounting policies on a year on year basis across the ESB Group;
  - b. the methods used to account for significant or unusual transactions where different approaches are possible;
  - c. whether ESB has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - d. the clarity and completeness of disclosures in the financial statements of ESB and ESB Finance DAC and the context in which the disclosures are made; and
  - e. all material information presented with the financial statements of ESB and ESB Finance DAC, such as the business review and the corporate governance statements relating to the audit and to risk management.
- ii. The Committee shall review the content of the ESB annual report (including the ESB financial statements) and advise the Board on whether, taken as a whole, (i) it is fair, balanced and understandable, (ii) provides the information necessary for shareholders to assess the ESB Group's performance, business model and strategy and (iii) satisfies the requirements in relation to the preparation of an annual report applying under the Code of Practice for the Governance of State Bodies and/or the ESB Regulations.

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<sup>1</sup> The term "ESB Group" includes ESB and all subsidiaries including ESB Finance DAC, ESB Networks DAC and NIE Group Companies.

- iii. The Committee shall review the annual financial statements and audit finding report for ESB Finance DAC and recommend, if appropriate to the Board of ESB Finance DAC for approval.
- iv. Where the Committee is not satisfied with any aspect of the proposed financial statements of either ESB or ESB Finance DAC, it shall report its views to the board(s) of ESB and/or ESB Finance DAC, as applicable.

**b. Internal Controls and Risk Management Systems**

The Committee shall:

- i. Support the Board in carrying out the Board's responsibilities for ensuring that there is a robust process in place to identify, assess, report on and control risk including advising the Board in its consideration of the overall risk appetite, risk tolerance and risk strategy of ESB Group.
- ii. Review and recommend for approval to the Board the Group Risk Policy and the Annual Risk Management Plan.
- iii. Review the principal and emerging risks of ESB Group and the adequacy of controls and planned mitigation.
- iv. Monitor the effectiveness of the risk management framework of ESB Group, ensuring its continued functioning and appropriateness and review reports on any material breaches of risk limits, risk incidents and the adequacy of proposed corrective actions.
- v. Review and monitor the effectiveness of the arrangements for crisis management and business continuity planning for ESB Group.
- vi. Advise the Board on the need for periodic external review of the effectiveness of enterprise risk management.
- vii. Ensure that the risk management function is adequately resourced and has appropriate standing within ESB Group.
- viii. Be consulted in advance of the appointment or termination of the appointment of the Chief Risk Officer.
- ix. Keep under review the adequacy and effectiveness of the ESB Group's financial and non-financial controls. The Committee should satisfy itself that the company's system of internal control operated effectively during the reporting period and that the system of internal reporting gives appropriate early warning of significant internal control

failings. The Board retains ultimate responsibility for the review of the effectiveness of the system of internal control and must form its own opinion in this regard.

- x. Review and approve the statements on internal controls and risk management in the ESB Group Annual Report and in the financial statements of ESB Finance DAC.

### **c. Compliance, Whistleblowing and Fraud**

The Committee shall:

- i. Review the adequacy and security of the arrangements for employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and for the raising of protected disclosures under the Protected Disclosures Act 2014. As part of its remit the Committee shall review and approve the terms of the ESB Whistleblowing & Protected Disclosure Policy (and any changes thereto) and shall ensure that this policy allows for proportionate and independent investigation of reported matters and appropriate follow up action.
- ii. Be informed of instances of actual or potential protected disclosures
- iii. Review and approve a report, for publication not later than 30 June each year, in the form and covering the matters required by the Protected Disclosures Act 2014.
- iv. Review and approve the Anti Bribery, Corruption and Fraud Policy.
- v. Review the procedures for preventing and detecting fraud and shall be informed of instances of fraud and any fraud investigations under way.
- vi. Review and monitor the systems and controls for the prevention of bribery and corruption and receive reports on any non-compliance.
- vii. Review and recommend the Code of Ethics to the Board for approval.
- viii. Review the effectiveness and adequacy of the controls and procedures adopted across ESB Group to identify and give reasonable assurance concerning compliance with all statutory obligations applicable to ESB Group.
- ix. Review and monitor the procurement policies and procedures adopted by ESB Group.
- x. Review and monitor the processes adopted by ESB to achieve compliance with the Code of Practice for the Governance of State Bodies.

### **d. Internal Audit**

The Committee shall:

- i. Review and approve the charter of the internal audit function every two years and ensure that the function is adequately resourced and has appropriate standing.
- ii. Ensure that the Head of Internal Audit has direct access to the Board Chairman and the Committee and reports as appropriate to the Committee.
- iii. Review and assess the annual internal audit work programme.
- iv. Receive reports on the results of the internal auditors' work on a periodic basis.
- v. Review and monitor management's responsiveness to the internal auditors' findings and recommendations.
- vi. Monitor and assess the role and effectiveness of the internal audit function every two years in the context of their role as a provider of assurance including their independence, expertise, experience and adherence to professional standards.
- vii. Advise the Board on the need for periodic external review of the effectiveness of Group Internal Audit
- viii. Be consulted in advance of the appointment or termination of appointment of the head of internal audit.
- ix. Receive reports from internal audit on compliance with procurement and disposal procedures.
- x. Meet with the Head of Internal Audit at least once a year without the presence of management.

**e. External Audit**

The Committee shall:

- i. Consider and make recommendations to the Board in relation to the appointment, re-appointment and removal of ESB's (and/or ESB Finance DAC's external auditor(s)
- ii. Ensure that at least once every ten years (or at such shorter intervals as may be required by law) the audit services contract is put out to tender to ensure compliance with applicable laws 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 access as is necessary to information and individuals during the duration of the tendering process.
- iii. Oversee the relationship with the external auditor, including:

- a. Making recommendations on their remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - b. Approving their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - c. Assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
  - d. Satisfying itself that there are no relationships between the auditor and ESB (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
  - e. Agreeing with the Board a policy on the employment of former employees of the external auditor(s), and monitoring the implementation of this policy;
  - f. Monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by ESB compared to the overall fee income of the firm, office and partner and other related requirements;
  - g. Assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor(s) on their own internal quality procedures; and
  - h. Seeking to ensure co-ordination with the activities of the internal audit function.
- iv. Meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without management being present, to discuss the auditor's remit, the operation of Group Internal Audit and any issues arising from the audit.
- v. 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.
- vi. Review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- a discussion of any major issues which arose during the audit;
  - key accounting and audit judgements;
  - levels of errors identified during the audit; and
  - the effectiveness of the audit process.
- vii. Review any representation letter(s) requested by the external auditor before they are signed by management.
- viii. Review the management letter (if issued) and management's response to the auditor's findings and recommendations.
- ix. Develop and implement a policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter

## **7. ROLE OF COMMITTEE CHAIRMAN AND SECRETARY**

The Chairman has particular responsibility for ensuring:

- that the Committee is appropriately resourced;
- the Committee reviews Internal Audit Reports and management responses and ensures that actions are followed up;
- reports to the Committee contain relevant information and are provided at the right time in an appropriate format;
- absent Committee members are briefed on meetings and attendance records are maintained and reviewed annually;
- they report at Board meetings and submit regular written reports, normally by way of Committee minutes, to the Board containing relevant information;
- matters arising are reported on at each subsequent meeting; and
- they are involved in the appointment of new Committee members.

Appraisal: Appraisal of the Chairperson of the Audit and Risk Committee should be overseen by the Chairperson of the Board.

The Secretary to the Audit and Risk Committee should:

- request papers as necessary and support the Chairman in reporting to the Committee;
- circulate documents and keep and circulate minutes of meetings to Committee members and to internal and external audit as necessary in good time for meetings;
- for any agreed actions, document the owner, deadline and any advice given by stakeholders and monitor between meetings;
- together with senior management keep the Committee abreast of developments in the State body; and
- maintain a record of members' appointments and termination/renewal dates and ensure that appropriate appointment procedures are initiated when necessary.

## **8. REPORTING AND OTHER MATTERS**

- a. 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 to the Board on how it has discharged its responsibilities. This report shall include the significant issues that it considered in relation to the Annual report and financial statements and how these were addressed; its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor.



- b. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- c. The Committee shall compile a report on its activities to be included in the ESB annual report. The report should include an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the external auditor. In the compiling this report, 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 ESB Group is a going concern. The report of the Committee need not repeat information disclosed elsewhere in the ESB annual report (including in the financial statements set out therein), but may provide cross-references to that information.
- d. The Committee Chairman shall attend the AGM and shall answer questions, through the Chairman of the Board, on the Committee's activities and its responsibilities.
- e. The Committee shall arrange for periodic reviews of its own performance and annually review its Terms of Reference and recommend any necessary changes to the Board.
- f. The Committee shall keep its own training needs under review and ensure appropriate and timely induction for new members. There should be a formal induction process in place (including individually tailored training) for new Committee members. The Committee Chairman should make recommendations to the Board on the Committee's and individual members' training needs. The Committee should keep up to-date with best practices and developments in corporate governance.
- g. The Committee shall work and liaise as necessary with all other Board Committees and in this regard the Committee Chairman will meet regularly with the Chairman of the other Board Committees to agree and update as appropriate the specific risk responsibilities of these Committees.