

Audit and Risk Committee Terms of Reference

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1. Establishment of the audit and risk committee and its terms of reference

The terms of reference set out the basis on which the board has established an audit and risk committee ('committee') pursuant to the authority contained in, and subject to the provisions of, the constitution. The terms of reference may be amended by the board.

2. Purpose

The purpose of the terms of reference is to outline the manner in which the committee discharges its responsibilities. The committee has been established to:

- 2.1 assist the board in its oversight of the integrity of the financial reporting, including supporting the board in meeting its responsibilities regarding financial statements and the financial reporting systems and internal controls
- 2.1 monitor, on behalf of the board, the effectiveness and objectivity of internal and external auditors
- 2.3 assist the board in its oversight of the risk management framework, monitoring its effectiveness through functional implementation in the 'second line of defence' and its performance to protect against and mitigate risks in the 'first line of defence'. Refer to Appendix A for an illustration of the 'Three Lines of Defence' model.

3. Authority

- 3.1 The committee is authorised by the board to investigate any activity within its terms of reference.
- 3.2 The committee will have unrestricted access to members of management, employees and relevant information it considers necessary to discharge its duties.
- 3.3 The committee will have unrestricted access to records, data and reports. If access to requested documents is denied due to legal or confidentiality reasons, the committee will follow a prescribed, board approved mechanism for resolution of the matter.
- 3.4 The committee is entitled to seek any explanatory information that it requires to discharge its duties and management and employees should cooperate with requests made by the committee.

4. Composition of the committee

Chairperson

- 4.1 The chair of the committee shall be an independent non-executive director, appointed by the board.
- 4.2 The chair of the committee shall not be the chair of the board.
- 4.3 In the absence of the chair of the committee or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

Membership

- 4.4 The committee shall consist of at least three members. All members of the committee shall be independent non-executive directors of Jersey Electricity.
- 4.5 At least one of the committee members shall have recent and relevant financial experience. All committee members are expected to have experience or an understanding of the industry in which Jersey Electricity operates.
- 4.6 Members of the committee shall be appointed by the board on the recommendation of the nomination committee in consultation with the chair of the committee.

Duration of appointments

- 4.7 Appointments should be for a period of up to three years, extendable by no more than two additional three-year periods, so long as members continue to be independent.
- 4.8 Continuance of committee members will be reviewed annually.

Secretary

- 4.9 The company secretary (or their nominee) shall act as the secretary to the committee and is responsible for helping the committee to function effectively.
- 4.10 The committee will have access to the services of the company secretariat on all committee matters including assisting the chair in planning the committee's work, drawing up meeting agendas, maintenance of minutes, drafting of material about its activities for the annual report, collection and distribution of information and provision of any necessary practical support.

5. Proceedings of committee meetings

Quorum

- 5.1 The quorum necessary for the transaction of business shall be three members and where practicable this should include the member with the recent and relevant financial experience. A duly convened meeting of the committee at which a quorum is present

shall be competent to exercise any or all of the authorities, powers and discretions vested in or exercisable by the committee.

Attendance

- 5.2 Members of the committee and other non-executive members of the board have the right to attend committee meetings.
- 5.3 The following staff members are expected to attend committee meetings on a regular basis: company secretary, finance director, head of internal audit and external audit representatives. Other staff may attend by invite only.
- 5.4 The chair of the board, the chief executive and other executive board members shall attend as and when invited by the committee.

Frequency of meetings

- 5.5 The committee shall meet at least three times a year and at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 5.6 Meetings will be scheduled to ensure there is sufficient time between committee meetings and board meetings to allow for work arising from the committee to be carried out and reported to the board.
- 5.7 Outside of the formal meeting programme, the committee chair will maintain a dialogue with key individuals involved in the company's governance, including the board chair, the chief executive, the finance director, head of internal audit and the external audit lead partner.

Notice of meetings

- 5.8 Meetings of the committee shall be called by the secretary of the committee at the request of the committee chair any of its members, or at the request of external auditor lead partner or the head of internal audit, if they consider it necessary.
- 5.9 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed shall be provided to each member of the committee and any other person to attend, no later than five working days before the date of the meeting.
- 5.10 The company secretary shall ensure the committee receives information and papers in a timely manner to enable full and proper consideration to be given to these issues.

Minutes of meetings

- 5.11 The secretary shall minute the proceedings and decisions of all committee meetings, including recording the names of those present and in attendance.
- 5.12 Draft minutes of committee meetings shall be circulated promptly to all members of the committee. Once approved, minutes should be made available to all other members of the board unless it would be inappropriate to do so.

6. Engagement with shareholders

The chair of the committee (or a nominee from the committee) shall attend the Annual General Meeting and shall answer questions, through the chair of the board, on the committee's activities and its responsibilities.

7. Duties

It is the responsibility of the committee to provide the board with independent, objective advice of management arrangements with respect to the following aspects for the parent company, any major subsidiary undertakings and the group, as appropriate.

7.1 Financial reporting

7.1.1 The committee shall monitor the integrity of the financial statements of the company, including its annual and half-yearly reports, preliminary announcements and any other formal statements relating to its financial performance, and review and report to the board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor.

7.1.2 In particular, the committee shall review and challenge where necessary

- the application of significant accounting policies and practices, and any changes to them
- the methods used to account for significant or unusual transactions where different approaches are possible
- whether the company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements
- the clarity and completeness of disclosures in the financial statements and the context in which statements are made
- all material information presented with the financial statements, such as the Chair's Statement, Chief Executive's Review and Financial Review and the corporate governance statement (insofar as it relates to the audit and risk management).

7.1.3 The committee shall review any other statements requiring board approval which contain financial information (for example, summary financial statements, significant financial returns to regulators and release of price sensitive information). Whenever practicable, the committee should review such statements prior to board approval, without being inconsistent with any requirement for prompt reporting under any law or regulation including the Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook.

7.1.4. 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.

7.1.4 When requested by the board, the committee shall review the content of the annual report and accounts and advise the board 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, and whether it informs the board's statement in the annual report on these matters that is required under the Code.

7.2 External Audit

7.2.1 The committee is empowered to:

- appoint, compensate and oversee all audit and non-audit services
- identify threats to the independence and objectivity of the external auditor and any safeguards in place
- pre-approve all auditing and non-audit services performed by auditors
- understand the nature of non-audit services and making an assessment as to whether the external audit firm is the most suitable supplier of the non-audit service
- monitor compliance with the 70% test of the provision of non-audit services by the external auditor firm

7.2.2 The committee is the body responsible for overseeing the Jersey Electricity's relations with the external auditor and assessing their effectiveness.

The committee shall: -

- oversee the appointment (including the selection process), reappointment and removal of the external auditor and make appropriate recommendations through the board to the shareholders to consider at the annual general meeting
- investigate any issues leading to the resignation of the external auditor and decide whether any action is required
- assess annually the qualifications, expertise and resources, and independence of the external auditor (ensuring that key partners are rotated at appropriate intervals),
- assess the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures
- approve the audit fee and pre-approve the use of external auditors for non-audit services, provided the fee for such services is not material in the context of the audit fee and does not impair the external auditor's independence or objectivity. If the size, nature or special conditions of non-audit services are thought to give rise to a threat to the external auditor's independence the committee will need to explain to shareholders how auditor objectivity and independence has been safeguarded. The committee will also give due regard to relevant ethical guidance on the matter
- discuss with the external auditor, before the audit commences, the nature and scope of the audit and to review the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements
- evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the committee
- review any representation letter(s) requested by the external auditor before they are signed by management
- review the external auditor's management letter and management's response
- consider management's response to any major external audit recommendations
- satisfy itself that there are no relationships (such as family, previous or current employment, investment, financial or business) between the external auditors and Jersey Electricity (other than in the ordinary course of business)
- meet the external auditor at least once a year, without management being present, to discuss the external auditor's remit and any issues arising from the audit
- review and approve the annual audit plan and ensure that this is consistent with the scope of the audit engagement

- annually review the effectiveness and performance of external auditor, taking into consideration relevant UK professional and regulatory requirements.

7.3 Internal controls and risk management systems

- 7.3.1 The committee is responsible for obtaining reasonable assurance with respect to the internal controls in responding to the risks within Jersey Electricity's governance, finance, operations, data management, information systems and cyber security.

The committee shall:

- keep under review the company's internal financial control systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems
- review and approve the statements to be included in the annual report concerning internal control, risk management, including the assessment of principal risks and emerging risks and the viability statement

- 7.4.1 The committee is responsible for obtaining reasonable assurance with respect to Jersey Electricity's risk management processes.

The committee shall: -

- review the risk profile on an annual basis and provide input and recommendations to the board on the Jersey Electricity's risk framework, including appropriateness of mitigations and the risk appetite
- review the robustness of the risk management policy and processes, assessing their fitness for purpose when tested against the risk appetite
- review assurance reports from management, company secretary and internal audit regarding the risk management, regulatory compliance, business resilience, contentious matters and other ad hoc reports covering such matters relation to risk management as the board may request from time to time
- review the effectiveness of correction action taken regarding risk management
- undertake deep-dive reviews into significant risks either at the request of the board or where, in the committee's view, further scrutiny is required.

7.5 Compliance, speaking-up and fraud

- 7.5.1 The committee shall:

- review the effectiveness of the systems in place for monitoring compliance with laws and regulations
- obtain updates from management and the company secretary regarding compliance matters
- review the effectiveness of Jersey Electricity's whistleblowing (speak up) procedures, including handling allegations and protecting against discrimination of employee's who make disclosures pursuant to the speak up policy
- review the company's procedures for detecting of fraud, including the appropriateness of investigations where fraud is detected
- review the company's systems and controls for the prevention of bribery and receive reports on non-compliance

7.6 Internal audit

- 7.6.1 The committee shall:

- approve the appointment or termination of appointment of the head of internal audit
- review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work and annually approve the internal audit charter, ensuring it is appropriate and fit for purpose
- review and approve the annual internal audit plan to ensure it is aligned with the principal risks of the business, and receive regular reports on work carried out
- ensure internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate
- ensure there is open communication between different functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan
- inquire of the head of internal audit about steps taken to ensure the internal audit activity conforms with the IIA's international standards for the Professional Practice of Internal Auditing (Standards)
- ensure the head of internal audit has direct access to the board chair and to the committee chair, providing independence from the executive and accountability to the committee

7.6.2 The committee shall carry out an annual assessment of the effectiveness of the internal audit function and as part of the assessment:

- meet with the head of internal audit at least once a year without the presence of management
- review and assess the annual internal audit work plan
- receive a report on the results of the internal audit's work
- determine whether it is satisfied that the quality, experience and expertise of the internal audit is appropriate for the business
- monitor management's responsiveness to internal audit findings and recommendations

7.6.3. The committee will ensure that the internal audit activity has an external quality assurance every five years, or as deemed appropriate.

7.6.4 The committee will monitor and assess the effectiveness of the internal audit function and advise the board about any recommendations for the continuous improvement of the internal audit activity.

7.8 Corporate governance

7.8.1 The committee shall review and provide advice with respect to the governance process established and maintained within Jersey Electricity and the procedures in place to ensure that they are operating as intended.

8. Reporting Procedures

8.1 The committee chair 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 financial statements and how these were addressed
- its assessment of the effectiveness of the external audit process

- the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans
- any other issues on which the board has requested the committee's opinion

8.2 Annually, the committee will compile a report to the board for inclusion in the annual financial accounts. This report will summarise the committee's activities in discharging its responsibilities and will include:

- an overall assessment of management's risk, control and compliance processes, including details of any significant emerging risks or legislative changes impacting Jersey Electricity plc;
- details of committee meetings, including the number of meetings held during the period and the number of meetings each member attended;
- the significant issues that the committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated by the auditor;
- an explanation of how the committee addressed the independence and effectiveness of the external audit process;
- the approach taken to the appointment and reappointment of the external auditor, including information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans. In the case where the board does not accept the committee's recommendation on the external auditor appointment, reappointment or removal, the committee will provide a statement explaining its recommendation and the reasons why the board has taken a different position;
- an explanation of how auditor independence and objectivity are safeguarded, if the external auditor provides non-audit services;
- provide information required, if any, by new or emerging corporate governance development.

9. Principles

- 9.1 The committee will conduct itself in accordance with Jersey Electricity's values. It is the responsibility of the committee members to disclose any conflict of interest or appearance of conflict of interest to the committee.
- 9.2 The committee expects that all communication with management and staff, as well as external assurance providers will be direct, open and complete.
- 9.3 The chair of the committee will collaborate with the executive leadership team and the head of internal audit to establish a work plan to ensure that the responsibilities of the committee are scheduled and carried out.
- 9.4 All committee members are obliged to prepare for and participate in committee meetings.

10. Governance and resources

- 10.1 The committee shall, via the secretary of the committee, make available to new members of the committee a suitable induction process and for existing members, ongoing training as discussed and agreed by the committee.
- 10.2 The committee shall have access to sufficient resources in order to carry out its duties and have the power to engage independent counsel and other professional advisers. Such advisors may attend meetings as necessary.

11. Terms of reference

- 11.1 The committee shall annually review its terms of reference and recommend amendments to the board.

12. Other Matters

The committee shall: -

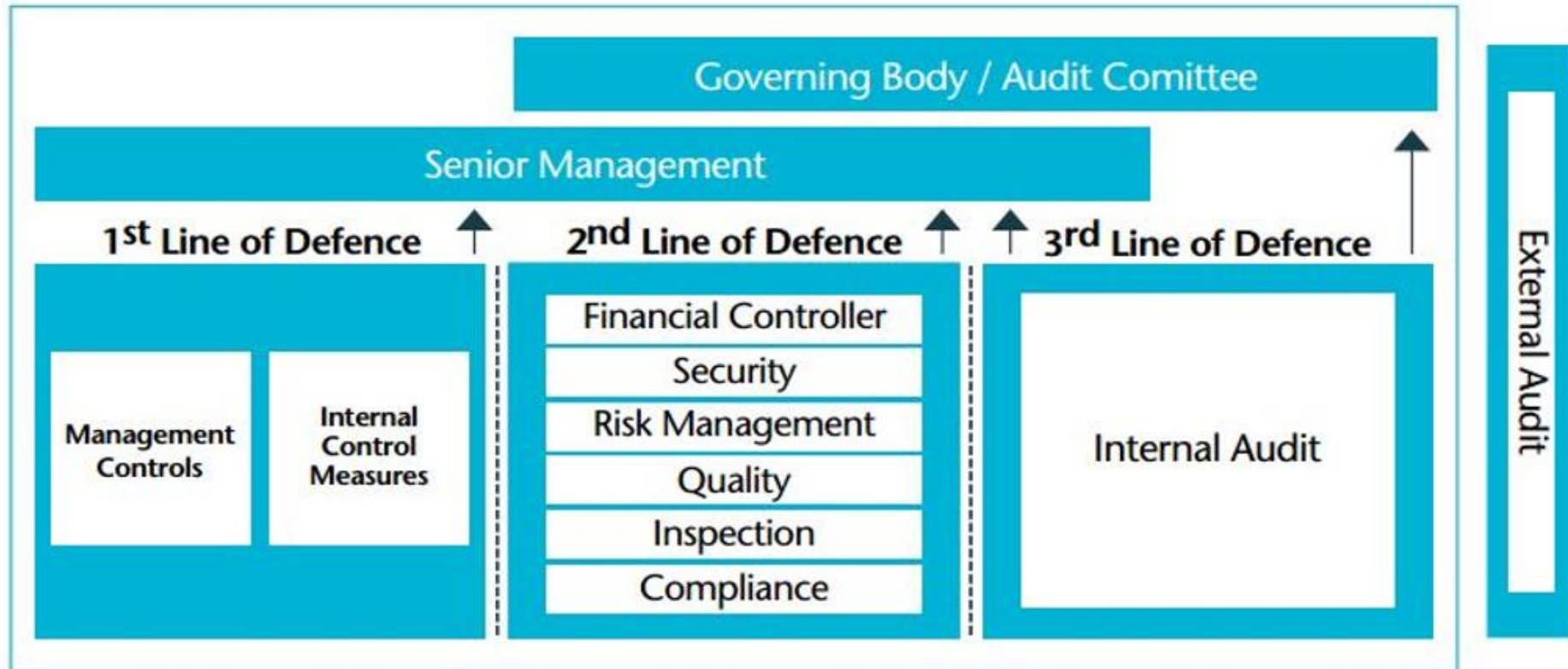
- undertake any special projects or investigations which the committee considers necessary, or requested by the board;
- consider other topics, as defined by the board.

13. Approval

This terms of reference was approved by the board of Jersey Electricity plc on: 17 December 2020

Appendix A: Three lines of defence model

Jersey Electricity has adopted the 'Three lines of Defence' model in order to systematically and organisationally embed risk monitoring and management. The three lines of defence model enhances the understanding of risk management and control by clarifying roles and duties.



Appendix B: Audit and risk committee: calendar of activities

Action	Frequency	Scheduled meeting			
		May	July	Sept	Dec
Constitution					
Review the ARC terms of reference and recommend any changes.	Annually				X
Review code of conduct and recommend any changes.	Annually				X
Declare any conflicts of interest.	Each meeting	X	X	X	X
Review the appointment of committee members, in terms of duration and independence.	Annually			X	
Schedule dates for next year's ARC	Annually			X	
Chair to establish meeting agenda and attendees required.	As needed				
Enhance skills and experience of members and attendees.	As needed				
Financial Reporting					
Review corrected and uncorrected audit differences.	Bi-annually		X		X
Review updates to key financial policies (for example: Treasury Policy)	Annually				X
Review new accounting and reporting developments.	As needed				
Review critical accounting policies and alternative accounting treatments.	Annually	X			
Review significant accounting judgements and estimates (judgemental issue papers)	Annually				X
Review large, unusual and complex transactions.	As needed				
Review and challenge where necessary, the actions and judgements of management, in relation to interim reports, preliminary announcements and related formal statements before submission to the board.	Bi-annually		X		X
Review and advise the board of the fairness of the interim and financial statements in the annual financial accounts.	Bi-annually		X		X
Risk management and controls					
Review management's remediation plan and effectiveness of correction action taken, to address weaknesses in the internal controls.	Each meeting	X	X	X	X
Review the risk profile and provide recommendations to the board on the risk framework, including appropriateness of the risk appetite.	Annually		X		
Review the robustness of the risk management policy and processes, assessing their fitness for purpose against the risk appetite.	Annually	X			
Review anti-fraud and bribery programmes and the risk of management override.	Annually	X			

Action	Frequency	Scheduled meeting			
		May	July	Sept	Dec
Assess crisis management and business continuity plans.	Annually		X		
Undertake a robust assessment of the company's emerging and principal risks, including an assessment of the processes in place to identify and manage emerging risks.	Annually		X		
Undertake deep-dive reviews into significant risks that require further scrutiny.	Tri-annually		X		
Understand management remuneration structures and the drivers of bias.	As needed				
Review reports from regulators and management's response.	As needed				
Review and oversee the management of cyber risk. Assess whether the business is taking adequate steps to prevent and prepare for cyber-attacks.	As needed				
Evaluate the corporate culture and the 'tone from the top'.	As needed				
Review assurance reports regarding the risk management, regulatory compliance, business resilience and other contentious matters covering risk management, as the board may request from time to time.	As needed				
External audit					
Consider the effectiveness and objectivity of the auditor.	Annually	X			
Review audit plan and scope of audit work.	Annually	X			
Discuss external auditors' views on control environment.	Annually				X
Meet with the external auditors in absence of executives and management to discuss any necessary matters.	Annually				X
Review the audit quality inspection report (by the regulator) regarding the External Auditors' performance	Annually	X			
Recommend appointment and review performance.	As needed				
Approve audit fees and terms of engagement.	As needed				
Consider policy in relation to non-audit services	As needed				
Discuss appropriateness of accounting policies, estimates and judgements.	As needed				
Internal audit					
Review internal audit reports and significant findings.	Each meeting	X	X	X	X
Monitor management's responsiveness to internal audit findings and recommendations.	Each meeting	X	X	X	X
Review and approve the internal audit plan.	Bi-annually		X		X
Discuss with the head of internal audit, the internal audit's functions responsibilities, budget and resourcing.	Bi-annually		X		X
Review the performance of head of internal audit.	Annually			X	

Action	Frequency	Scheduled meeting			
		May	July	Sept	Dec
Review and approve proposed changes to the internal audit charter.	Annually				X
Meet with head of internal audit in absence of executives and management to discuss any necessary matters.	Annually				X
Review where an external quality assurance of the internal audit function is required (outside the five-year requirement).	As needed				
Recommend and advise on the appointment and removal of the head of internal audit.	As needed				
Compliance, whistleblowing and fraud:					
Review the effectiveness of Jersey Electricity's whistleblowing procedures (Speak Up policy).	Annually	X			
Review the effectiveness of the systems in place for monitoring compliance with laws and regulations.	As needed				
Obtain updates from management and the Company Secretary regarding compliance matters.	As needed				
Review the company's procedures for prevention and detecting of fraud.	As needed				
Other responsibilities:					
Maintain minutes and report to the board.	Each meeting	X	X	X	X
Chair to attend the Annual General Meeting.	Annually		X		
Review report to shareholders on role and responsibilities of the committee.	Annually				X
Review legal and compliance developments. i.e. Corporate Governance, advice for Audit Committees and IVIS comparison report.	Annually				X
Review, with management, the finance function, including its budget, quality of staff and succession planning.	As needed				
Work with the nomination committee to develop an audit committee succession plan.	As needed				
Conduct special investigations and perform activities as appropriate.	As needed				
Provide appropriate induction for new members.	As needed				
Engage outside legal, accounting or other advisers.	As needed				
Review progress on action taken in response to the representation of the auditors/	As needed				
Review legal and compliance developments.	As needed				