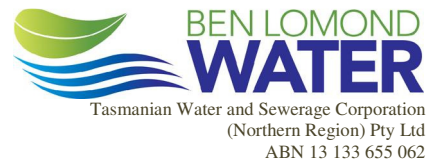


INTERNAL AUDIT CHARTER



This Charter defines the mission, authority and responsibility of the Internal Audit function.

MISSION OF THE INTERNAL AUDIT FUNCTION

The primary purpose of the Internal Audit function is to provide the Corporation's Board and management with independent and objective assurance services.

Internal Audit will help the Corporation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes and by recommending improvements where relevant.

In practice this means the scope of work of Internal Audit is to determine whether the Corporation's network of risk management, control, and governance processes, as designed and implemented by management, is adequate and functioning in a manner that ensures:

- risks are appropriately identified and managed;
- processes are designed and operating to achieve the objectives of the Corporation; and
- business operations are conducted in compliance with legislative and regulatory requirements, policies, procedures and internal controls.

Internal Audit may provide consulting services where this does not compromise the independence and primary purpose of the Internal Audit function.

ORGANISATION

The Internal Audit function is managed internally by the Internal Audit Manager who is accountable for planning Internal Audit activities, managing the delivery of services by the outsourced service provider and reporting on Internal Audit activities to the Audit and Risk Committee (AAR). Most internal audits will be conducted by an outsourced service provider. References to Internal Audit staff in this Charter includes the Internal Audit Manager and outsourced service provider.

AUTHORITY

The Internal Audit Manager is accountable to the AAR, has direct access to the AAR Chairman and reports administratively to the Corporate Secretary.

In executing their responsibilities, Internal Audit staff are authorised to have full and free access to all the Corporation's activities, systems, operations, records, property and personnel.

INDEPENDENCE AND OBJECTIVITY

Internal Audit staff must operate with independence and objectivity in the planning and conduct of Internal Audit activities.

The Internal Audit staff must not:

- perform any operational duties unless those duties relate to the operation of the Internal Audit function;
- initiate or approve accounting transactions unless the transactions are directly related to the Internal Audit function; or
- direct the activities of any Corporation personnel that are not employed by Internal Audit, except to the extent that the personnel have been appropriately assigned to Internal Audit or to assist the internal auditors.

Any conflict of interest that could affect the independence and objectivity of the Internal Audit function should be reported to the Corporate Secretary and the AAR Chairman.

STANDARDS OF INTERNAL AUDIT PRACTICE

Internal Audit activities will be planned, conducted and reported in accordance with the Institute of Internal Auditors International Professional Practices Framework (IPPF). The IPPF includes the definition of internal auditing, code of ethics, standards and other relevant guidance.

Other auditing standards may be used if they are not inconsistent with the IPPF.

An Internal Audit manual will be developed for day to day use by Internal Audit staff.

INTERNAL AUDIT PROCEDURE

To determine the priorities of the Internal Audit function, the Internal Audit Manager will develop the Internal Audit plan (plan). The plan will be prepared on a 3 year basis consistent with the corporate plan and will be subject to AAR approval.

The plan will be risk based and include risks and control issues identified by management. The plan will also consider key systems, processes and controls.

The AAR may request that the Internal Audit Manager undertake internal audits on an ad hoc basis which are not included in the plan.

When developing the plan, care will be taken to co-ordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise unnecessary duplication of work.

Additionally, while complying with confidentiality requirements, the plan will include systems and processes that are common to all four Tasmanian Water and Sewerage Corporations in order to achieve economies of scale.

The plan will be reviewed and updated annually with the help of management to accommodate changing business circumstances.

The outsourced service provider will deliver the plan within the expected timeframe and budget.

Internal audits will be conducted with courtesy to Corporation staff and management consistent with the values of the Corporation.

An Internal Audit report will be issued for every audit performed. All reports will contain at a minimum:

- the scope of the review;
- a grading of issues;
- a summary of the findings including control issues that arose during the review;
- appropriate recommendations; and
- agreed management actions and timeframe for completion.

Follow up audits will be conducted at a suitable time after completion of the audit.

AAR REPORTING

The Internal Audit Manager will report at each AAR meeting on:

- the progress on delivery of the audit plan;
- the service delivery of the outsourced service provider; and
- other matters as required by the AAR.

QUALITY ASSURANCE

The processes and procedures used by Internal Audit are subject to internal periodic review to ensure that the function is operating in accordance with best practice and continually adding value to the Corporation.

Internal Audit will also be subject to an external quality review once every 5 years by a qualified and independent third party.

On approval of the AAR, outcomes of the reviews will be implemented.

REVIEW OF THE INTERNAL AUDIT CHARTER

The Internal Audit Manager will review the Internal Audit Charter at least once every three years to ensure that it is up to date and relevant and present it to the AAR for approval.

REFERENCES

This Charter should be read together with the AAR Charter.

Approved by the Board on: 1 July 2010