



ACTEW Corporation

Governance Assessment

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pwc

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Disclaimer

In preparing this report, we have relied upon the information provided to us by management (as listed in Appendix A) and interviews with senior ACTEW personnel and Board members, as set out in Appendix B. Our services have been primarily based upon the information provided by you. We have relied on and not verified the truth or accuracy of all information or material provided or made available to us during our engagement. We do not assume any responsibility and make no representations with respect to the accuracy or completeness of any information provided by and on behalf of you.

Whilst our engagement may involve the analysis of financial information and accounting records, it does not constitute an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements and accordingly no such assurance will be provided in our reports or deliverables.

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PwC provides consent for this report to be shared directly with ACTEW Corporation Limited shareholders for the purposes of their independent review and consultations with ACTEW.

1 *Executive Summary*

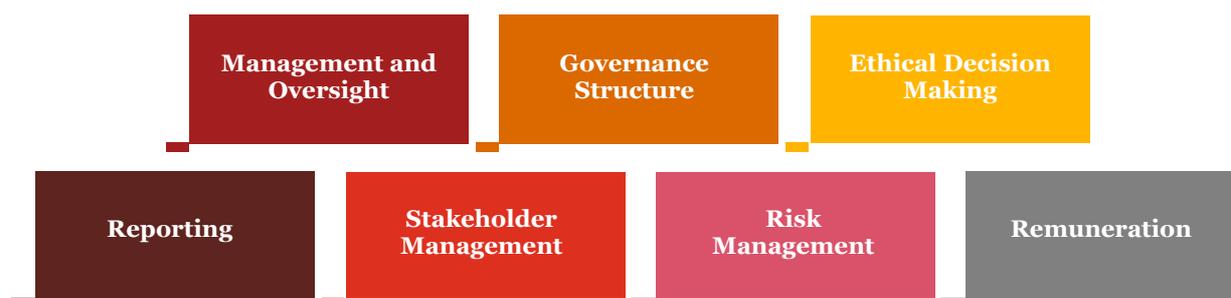
1.1 *Context of this report*

In response to a letter from the ACT Chief Minister (dated 14 December 2012) to Mr John Mackay, Chairman, ACTEW Corporation Limited (ACTEW), PwC was engaged to conduct an assessment of specific aspects of ACTEW's governance framework. The aforementioned Chief Minister's letter requested that an independent review be undertaken that specifically considers the governance framework around decision making concerning sponsorships, corporate marketing and entertainment.

In appointing PwC to undertake this review, ACTEW requested that the engagement not only address the specific requirements of the Chief Minister's letter, but also extend to undertake a general assessment of ACTEW's overarching governance framework.

1.2 *Scope and approach*

PwC considered ACTEW's governance framework through seven corporate governance 'themes' derived from PwC practice tools and consistent with guidance and principles published by ASIC, the ASX and Auditors General within Australia. Within these themes, PwC also considered ACTEW's legislative requirements pertaining to governance, including the *Territory owned Corporations Act 1990 (the Act)*. These themes are:



Within this framework, PwC considered ACTEW's governance framework at a high level and conducted a more detailed review of the elements of the governance framework that specifically relate to sponsorship activities, corporate marketing activities and entertainment activities. PwC did this through process reviews, document reviews, interviews and sample testing of transactions.

With regard to sponsorship and marketing activities, the review focused on the decision making, approval, documentation and disclosure frameworks, systems and processes in place at ACTEW.

In relation to the broader governance review, areas considered within the key themes included:

Management and Oversight	The definition of roles and responsibilities; the framework for setting strategic direction and performance monitoring; clarity of accountabilities and delegations for the Board and management; compliance plans; and oversight of responsibilities as a Territory-owned Corporation.
Governance Structure	The composition of the Board including independence and size; on-boarding and review / self assessment processes; policies and procedures; adequacy of sub-committee structures and; charters.

Ethical Decision Making	Promotion of ethics and fraud awareness, values; decision making processes and documentation; codes of conduct; conflict of interest management; supporting policies and procedures; and on-boarding and training.
Reporting	Processes, safeguards and oversight of financial and annual reporting; and reliance on / management of third party service providers involved in the reporting process.
Stakeholder Management	Communication strategies; reporting frameworks; and continuous disclosure / issues escalation processes.
Risk Management	Risk governance and responsibilities; risk policies and management framework; tools and systems; control activities; and review mechanisms.
Remuneration	Remuneration framework and policies; performance evaluation processes; role of remuneration sub-committee; incentive structures; and contracts and documentation.

1.3 *Summary of Findings*

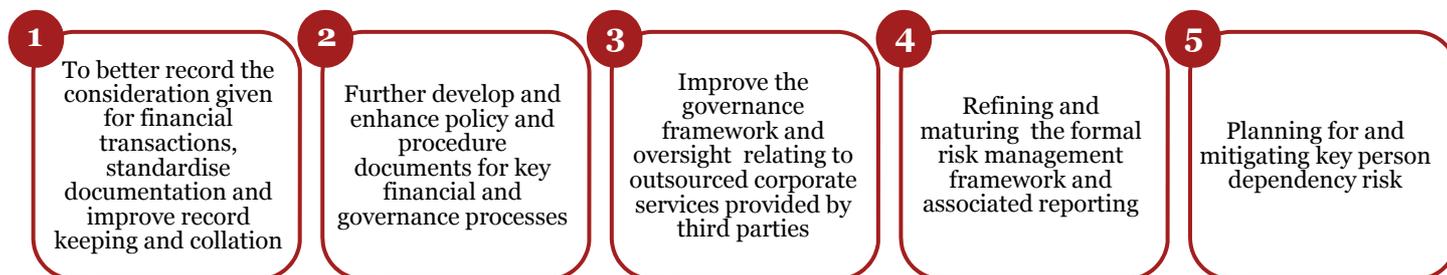
In general terms, the features of ACTEW's governance framework are consistent with the key principles of effective governance within each of the seven 'themes', having regard to the size, structure and complexity of both the organisation and the activities it undertakes. The governance framework appears to allow ACTEW to operate effectively and deliver on strategic objectives, and includes roles, responsibilities and monitoring and accountability mechanisms that all contribute to ACTEW's governance environment.

We observed a number of key strengths and specific elements in place within each of the areas considered that collectively contributed towards maintaining an effective governance framework. A number of proactive steps have also been taken by ACTEW's Board and management to continuously improve and strengthen the organisation in this regard. These initiatives in recent times have contributed to re-designing and transforming the organisation with a focus on the future and the further development of a sustainable, customer focused and effective organisation with a clear strategy, supported by appropriate structures, systems and processes. This has involved leveraging the significant corporate memory and skills within the organisation but also through other inputs such as cultural and customer workshops and assessments.

In recent times ACTEW has, and is still, undergoing significant organisational redesign and associated changes. This includes, amongst other things, the internalisation of the water business, previously operated as part of the joint venture, ActewAGL. As a result, the governance framework continues to evolve. As with any assessment conducted against principles of best practice, the review has identified a number of areas where improvements could be made. There are also a number of key issues that ACTEW need to consider. In many areas, ACTEW need to leverage what is already in place but further define specific policies, processes and record keeping requirements to reflect the growing nature of its business and the associated emerging risks.

This report is based on data, documentation and information received and reviewed during field work. We acknowledge that the Board and management may have undertaken certain actions to address some areas identified in this report since the field work was completed.

To further strengthen the control environment, PwC have identified areas where ACTEW's governance framework could be improved and have made findings and recommendations. These include:



The relationship between ACTEW and ActewAGL is acknowledged, however the delineation of activities between ACTEW and ActewAGL is often difficult for key stakeholders and the general ACT community to make. This challenge has increased in recent times as a result of joint programs and marketing arrangements. Furthermore, historically the Chairperson of ActewAGL has rotated approximately every two years with each party to the joint venture alternating their nomination for this role. In more recent times, the rotation has not occurred, creating the situation whereby the position of ACTEW Chairperson and ActewAGL Chairperson has been occupied by the same individual for an extended period. This has further contributed to the delineation challenge. We understand that this issue will be considered in more detail as part of the institutional structural review recently commissioned by the shareholders. We further understand that the Board is giving consideration to the trading name and the potential to delineate operations further through a potential corporate renaming exercise.

The transfer of the water business and the establishment of service provision arrangements with ActewAGL have also introduced a number of complexities and risks. The governance and performance management of these arrangements continues to be a work in progress. Positive steps have been taken through structured executive oversight and the establishment of service level agreements.

ACTEW have now dedicated resources to extending this to a more typical large scale outsourced vendor management arrangement. To achieve stronger governance and further support key decision making, ACTEW has acknowledged the need for further investment in its risk management framework and supporting processes.

There is limited publicly available information available in relation to the sponsorship programs provided by utilities in other jurisdictions. Where possible however, PwC reviewed ACTEW's investment in, and disclosure of, sponsorships (including grants, donations and partnerships) against other Australian water utilities. In terms of financial disclosures, ACTEW was the only utility which publicly disclosed both the total investment and component parts (ie. individual recipients) of its sponsorship programs. Relative to its water utility peers, ACTEW discloses a high level of detail relating to sponsorship information through its annual reporting process. This report has recommended that this detailed level of disclosure in addition to the broader information about sponsorship programs and access to funding, could also be replicated through its website.

Specific findings of the review and key areas where opportunities exist to further strengthen the governance framework are summarised in Section 2 while further detail and recommendations are provided in Section 3 of this report.

2 Summary of Findings and Recommendations

Management & Oversight

PwC's observations

- ACTEW' Board is defined and guided by a Constitution, Corporate Governance Charter, and Directors' Duties and Responsibilities Policy. Responsibilities are delegated to management via a schedule of administrative and financial delegations, which includes the areas of corporate marketing and entertainment.
- The Board provides strategic guidance and oversight through the ACTEW strategy. It is evident that development of a Statement of Corporate Intent ("SCI") has specific regard to ACTEW's main objectives as a Territory owned Corporation and is subject to a robust process.
- Roles and responsibilities have been clearly established and documented.
- We observed a generally effective and structured system of Board and management oversight over performance of the organisation with clearly defined and active reporting lines.
- By its nature, as a Territory owned Corporation and owner and operator of water and sewerage assets and businesses, ACTEW is subject to significant legislative compliance requirements. Dedicated resources within ACTEW actively manage compliance obligations. Positive steps have also been taken through structured executive oversight and the implementation of service level agreements with ActewAGL where there is dependence on third party service provision.

Key matters for consideration

- Specifically in regard to sponsorship, ACTEW could enhance its documentation to more clearly demonstrate how key business decisions and spending align with the achievement of the ACTEW strategy and its obligations as a Territory owned Corporation, both explicit in the Act and implicit to the ACT community. This should include establishing clearer delineation between marketing and sponsorship activities through both policy documents, delegations and accounting records while also ensuring the documentation of robust business cases to support significant decisions and financial investments. Revised policies should take into consideration and appropriately deal with the differences between community sponsorship programs, marketing and sponsorship arrangements involving individual sports players and major events such as Floriade.
- The Administrative and Financial Delegations Schedule would benefit from drawing the sponsorship delegations out from the 'general expenses' category, to better incorporate the existing Sponsorships and Donations policy and procedure. This will further align ACTEW processes with the Sponsorship Policy, particularly as it pertains to the approval process governing sponsorships. Furthermore, sponsorship payments reviewed and approved through the management structure could be individually tabled for acknowledgement at each subsequent Board meeting (rather than the existing practice on a quarterly basis) and published on ACTEW's website on an on-going basis to further support the public disclosures made by ACTEW of such payments through its annual report.
- While compliance obligations have been identified, ACTEW should formalise a compliance plan and review cycle, which specifies timetables for reporting and review, sets out ACTEW's compliance responsibilities and the controls in place to meet these requirements.
- ACTEW relies on third party service providers and needs to ensure that effective oversight mechanisms are in place to monitor and assess performance in key service delivery areas. While internal management and oversight structures and mechanisms are established, ACTEW needs to strengthen its management and oversight processes in regards to major outsourced third party service providers. Management has dedicated resources to address this issue and is currently developing a detailed strategy which should include performance, value, efficiency, compliance and quality measures.

Governance Structure

PwC's observations

- ACTEW has a fully independent Board (supported by conflict of interest policies and procedures) which is an appropriate size for an organisation like ACTEW.
- Four sub-committees covering Audit and Risk Management; Nomination; Remuneration; and Safety and Environment further strengthen the governance structure. Responsibilities and reporting lines of these sub-committees to the full Board have been established. The existing sub-committee structure provides a framework for the ACTEW Board to manage risk, monitor performance and discharge its responsibilities.
- While ACTEW and ActewAGL are managed and operated as separate businesses and legal entities, the delineation between the two is often not made or is misunderstood within the general community, due also in part to the commonality of brand. Although the Board and Audit and Risk Management Committee of each entity have separate obligations, the structure of these groups includes common members. The governance arrangements in place allow for, and as has historically been the case, the Chairperson role in ActewAGL to rotate every two years, alternating between nominations from each party to the joint venture. In recent years, renewed nominations have been accepted, resulting in a common Chairperson for both ACTEW and ActewAGL for an extended period.
- The structure of the ActewAGL Board is governed by the requirements of the Umbrella Agreement between the joint venture parties. We also acknowledge the benefits that arise from common Board memberships in joint venture arrangements. Notwithstanding this, there is also potential for the common memberships at Board level, combined with the external challenge in delineating between the two organisations, to introduce reputational risks for ACTEW associated with perceptions that generate in the public domain through various sponsorship and marketing activities conducted jointly or by each entity. In addition, risks can also arise for ACTEW in relation to the oversight of commercial contracts in place for the provision of services from ActewAGL.

Key matters for consideration

- We support ACTEW's initiative to implement an annual self-assessment for the Board through the Nomination sub-committee.
- Given the importance and the role of the sub-committees, ACTEW could provide greater detail in the Charters and supporting policies and procedures for the four Board sub-committees that would better reflect the rigour of their existing practices. This should also include an annual review of the performance of each sub-committee against the roles and responsibilities according to its charter, similar to the proposed Board self assessment process.
- Consideration should be given to creating a stronger delineation between brands in addition to the length of tenure that the Chairperson of both the ACTEW and ActewAGL Boards be occupied by the same individual. Whilst separation of these roles would reduce the risk associated with external perceptions, in this regard, consideration could be given to achieving more regular rotation of the ActewAGL Chairperson role. We understand that the Board is also giving consideration to a potential rebranding of ACTEW and that the structural relationship with ActewAGL will be further considered as part of the institutional structural review recently commissioned by the shareholders. As a starting point however, ACTEW should formally document these risks and formulate mitigation strategies it considers appropriate in the short, medium and longer terms.
- ACTEW's Audit and Risk Management Committee has a key role to play in the oversight of risks attached to the Corporate Services Agreement. The oversight of these risks should be more formally integrated into the ARMC charter.

Ethical Decision Making

PwC's observations

- ACTEW promotes ethical decision making by cascading the responsibilities and objectives from the SCI into their governance decision making framework. This relies on the successful implementation of policies and procedures, on the job training, and annual employee and organisational values based performance measurement to embed key strategic priorities.
- Decision making concerning sponsorships and donations, gifts, Directors' expenses, and corporate credit cards are supported by articulated policies, procedures and delegated limits of authority. Sample testing did not identify any exceptions to the approval processes.
- There is active promotion of the ethical and responsible decision making framework in place at ACTEW. This is supported by the Corporate Philosophy, the Code of Conduct, the Statement of Corporate Intent, induction materials, training materials, the Security Handbook, and the measures used in the Staff Incentive Scheme.

Key matters for consideration

- While there is existing policy and reporting and disclosure provisions for potential and actual conflict of interests and related party transactions by board members, PwC has identified some areas where systems and processes could be strengthened to further mitigate associated risks. This includes providing greater guidance and examples of what an actual or perceived conflict of interest is, standardising the use of data mining to assist in reporting and disclosure requirements, and extending the existing process for Board members of declaring interests to include direct family members.
 - ACTEW should provide greater detail in its policies and procedures which support the ethical decision-making framework by enhancing and standardising its documentation. Specifically, documentation requirements should include clear alignment of the decision being made to the four key objectives of ACTEW as a Territory owned Corporation as outlined at Section 7(1) of the Act. This would enhance the documentation of sponsorship and marketing decisions and, for larger expenditure, additional justification that correlates to the overarching strategic objectives.
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Reporting

PwC's observations

- ACTEW has a financial reporting framework in place which is supported by both an external audit and an outsourced internal audit function and is overseen by the Audit and Risk Management Committee.
- ACTEW has a process in place for preparing non-financial annual reporting, though there is not a formal annual reporting methodology. In some areas ACTEW relies on ActewAGL to provide data for this report.
- There is limited publicly available information available in relation to the sponsorship programs provided by utilities in other jurisdictions. Where possible however, PwC reviewed ACTEW's investment in, and disclosure of, sponsorships (including grants, donations and partnerships) against other Australian water utilities. In terms of financial disclosures, ACTEW was the only utility which publicly disclosed both the total investment and component parts (ie. individual recipients) of its programs. Entity A was the only other utility which specifically disclosed its total investment in sponsorships, donations and community support (at an aggregate level rather than individual recipients).
- Relative to its water utility peers, ACTEW discloses a high level of detail relating to sponsorship information through its annual reporting process.

Key matters for consideration

- Various policies and procedures exist to support key financial processes. However, the framework for finance functions and specifically financial reporting could be enhanced to clearly articulate the end to end financial reporting process, including responsibility for key disclosures and reliance on third party providers of information. This could also include defining the role of internal certification, quality assurance sign-off or other assurance processes relied upon by those with financial reporting responsibilities.
- Given the role of ActewAGL in providing information that ACTEW relies upon for formal external reporting, ACTEW should consider requiring ActewAGL to provide a formal sign-off that the information being relied upon is correct and has been subject to appropriate quality assurance mechanisms. ACTEW should also consider requesting either a right to audit or incorporating an agreed upon procedures engagement on an annual basis over the internal processes and controls within ActewAGL relevant to the services and information provided to ACTEW to provide greater assurance around the controls in place and relied upon by ACTEW. These changes may require an amendment to the Corporate Services Agreement between ACTEW and ActewAGL. Alternatively, consideration could be given to requiring an independent third party to provide some form of assurance that appropriate controls are in place to ensure that information being provided by ActewAGL is appropriate and reliable.
- ACTEW should consider replicating the detailed level of disclosure regarding sponsorship programs in its annual reporting, in addition to broader information about the programs and access to funding through its website.

Stakeholder Management

PwC's observations

- ACTEW communicates with its employees, shareholders, and the ACT community on an ongoing basis through a number of different mediums.
- All corporate communications with shareholders are handled (or signed off) by either the Chairman or Managing Director.
- ACTEW proactively conducted a cultural and stakeholder management assessment which included a number of consultations with key stakeholders. This was conducted as part of the business transformation strategy and is providing meaningful insights into opportunities for improvement.

Key matters for consideration

- To help in ensuring there is transparency in ACTEW's marketing and communications and explicitly link marketing, communications and strategy, ACTEW should include details as to the way in which the objectives as a Territory owned Corporation are included in the draft Marketing and Communications strategies.
 - ACTEW should develop a continuous disclosure policy to guide the proactive release of information on an ongoing basis. This should be informed by the risk management process and disclosure information could be risk rated from an operational and reputational perspective.
 - ACTEW could enhance current processes in place for ongoing reporting to shareholders so that higher risk matters are more clearly drawn out and visible in the on-going communication to shareholders. It should not represent an additional layer of compliance but build on and improve business as usual processes.
 - In addition, decisions deemed material should also be supported by risk assessments (including stakeholder considerations where relevant) that accompany recommendations made to the relevant delegate(s). The level of materiality should be determined by ACTEW with input from ACTEW's shareholders.
 - An annual self-assessment process regarding shareholder management should be undertaken and consideration given to conducting a formal annual shareholder assessment. This could involve meeting with shareholders to receive their feedback on ACTEW's communication and performance.
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Risk Management

PwC's observations

- ACTEW has an Audit and Risk Management Committee (ARMC) to provide oversight for the key risk management functions of the organisation. PwC sighted evidence that the risk register was reviewed on a quarterly basis.
- The ARMC consists of four members who also sit on the Board, and are involved with the enterprise risk register and risk transition planning.
- Risk and safety are key elements of employee induction, and the organisation wide, values based incentive scheme.
- Following the structural changes to the organisation including the internalisation of the water business, ACTEW has reviewed its approach to risk management and implemented a risk transition plan to reflect the requirements of the new structure. This has also involved several revisions and iterations to enhance its risk register and to reflect the structural changes. PwC notes that this remains a work in progress.

Key matters for consideration

- Risk management within ACTEW is a developing process, particularly given the change in the size and complexity of the organisation. Activity to manage risk was evident at various levels of operations. Effort is still required to strengthen aspects of risk management, including formal establishment of an enterprise wide risk management framework, development of a risk appetite statement, and greater depth in definition of consequence rating and key categories used to assess and monitor key risks.
 - The focus on revising the risk framework and registers has been at a corporate and senior level. It will take time for ACTEW to integrate and build understanding and capacity to manage risk and embed this into day to day operations and organisational culture.
 - ACTEW has initiated aspects of this continuous improvement activity. Once finalised and implemented, additional training and support will be required throughout the organisation.
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Remuneration

PwC's observations

- ACTEW has established a Remuneration sub-committee which consists of the independent members of the Board, and the Managing Director. The Managing Director provides the Board with the outcomes of the annual assessments for Executive managers and the staff responsible to them, including a summary of approved staff bonus payments.
- ACTEW has previously engaged third parties to provide guidance to the Board in relation to establishing employment conditions and remuneration for the Managing Director and staff.
- Remuneration levels, including bonus structures, are articulated in employment contracts and enterprise agreements.
- The Managing Director conducts an annual self assessment of his performance which is reviewed by the Remuneration sub-committee and the Board before recommending and approving performance based payments.

Key Matters for Consideration

- To reduce the risk of error and ensure there is greater transparency, in relation to the Managing Director's annual bonus, the Remuneration Committee should approve bonuses in dollar figures and remuneration totals should be broken down by component parts.
 - A specialist independent consulting firm is currently engaged to assist in the development of ACTEW's overall remuneration strategy. Outcomes of this process will continue to inform ACTEW in developing and amending remuneration policies and procedures. This process will also inform strategy for mitigation of key person dependency risk.
 - It is envisaged the outcomes of this process will also inform changes to the Executive Agreement in place for employment of the Managing Director.
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3 Detailed Assessment

3.1 Management and Oversight

Organisations should: define the roles and responsibilities of the board and management; ensure there is a framework that enables the board to monitor performance, provide strategic guidance and oversight; and provide clear accountabilities and delegations for both board and management.

In addition to stakeholder interviews and on-site analysis, PwC's observations and recommendations pertinent to management and oversight are made having had regard to the:

- Constitution of ACTEW Corporation Limited;
- Corporate Governance Charter;
- Corporate Philosophy Statement;
- Directors' Duties and Responsibilities Policy;
- Statement of Corporate Intent (2012-13 to 2015-16);
- Administrative and Financial Delegations Schedule; and
- Sponsorships and Donations Policy.

3.1.1 Observations

PwC observed a clearly defined set of roles and responsibilities for the ACTEW Board, sub-committees and management.

ACTEW sets out roles and responsibilities of the Board through its Corporate Governance Charter, Directors' Duties and Responsibilities Policy and its Constitution. ACTEW's Directors provide strategic guidance and effective management oversight to the Corporation.

Responsibilities are delegated to management from the Managing Director by way of a separate schedule of administrative and financial delegations. This includes delegations pertinent to corporate marketing and entertainment.

ACTEW has set a Corporate Philosophy that governs the objectives of staff and Board members. This reflects the primary objectives of a Territory owned Corporation that are defined at Section 7(1) of the Act and against which ACTEW should measure success as an organisation. These are:

- *Our owners are entitled to a satisfactory and sustainable commercial return on their investment.*
- *The ACT community will be supported through ACTEW's sponsorships, participation and involvement.*
- *Our customers are entitled to services that are reliable, efficient, cost effective and sustainable.*
- *Our staff to be provided a challenging, rewarding and safe workplace environment in achievement of our objectives.*

With respect to this philosophy and ACTEW's status under Section 7 of the Act as a public, unlisted, Territory owned Corporation, ACTEW has set its strategy through its Statement of Corporate Intent (SCI).

The ACTEW SCI details performance targets and business goals until the end of the 2015-16 financial year. PwC observed that there is a process in place for drafting, setting, and reporting against the ACTEW strategic objectives.

ACTEW sets its strategy and reviews it annually at Board strategy offsite meetings. ACTEW senior management and executives contribute to the strategy before a draft SCI is tabled at the Board level, accompanied by a budget. The content of the SCI is subsequently approved by ACTEW's shareholders and is tabled in the ACT Legislative Assembly, before being made available on ACTEW's external website.

In addition to the publication of the SCI, quarterly reports are provided against the strategic objectives of the SCI. These are tabled at the Board and are reported to ACTEW's shareholders.

We observed evidence of generally effective and systematic on-going monitoring and oversight of ACTEW's performance by both Board and senior management through regular reporting and communication through defined and understood reporting lines. ACTEW relies on third party service providers to monitor and assess performance in key service delivery areas.

Due to both its function and ownership structure ACTEW is subject to significant legislative compliance requirements. We observed that there are dedicated resources within ACTEW to actively manage compliance obligations.

3.1.2 Opportunities for improvement

1. ACTEW can utilise standardised templates that require expense requests to be accompanied by documented justification and clear coding of expenditure. While this could be applied more broadly, consideration should be given to specifically considering this in regards to sponsorship and establishing clearer delineation between marketing and sponsorship activities. This will further support how significant business decisions and spending decisions align with the achievement of ACTEW's strategy and its legislated goals as a Territory owned Corporation. Revised policies should take into consideration and appropriately deal with the differences between community sponsorship programs, marketing and sponsorship arrangements involving individual sports players and major events such as Floriade.
2. While compliance obligations have been identified, ACTEW may benefit from the formalisation and implementation of a compliance plan and associated review cycle. At a minimum this would include:
 - a. Specifying a timetable for reporting and review of compliance obligations.
 - b. Specifying associated responsibilities for reporting, review and sign-off of obligations.
 - c. Setting out ACTEW's responsibilities as a public unlisted Territory owned Corporation and how this impacts on compliance obligations.
 - d. Noting the controls in place to meet these requirements.
 - e. Tracking and recording sign-offs.

The framework documents and procedures referred to above are reviewed from 'time to time', however the corporate governance framework may be improved if these documents are reviewed within set timeframes.

3. The Administrative and Financial Delegations Schedule would benefit from drawing the sponsorship delegations out from the 'general expenses' category, to better incorporate the existing Sponsorships and Donations policy and procedure. This will further align ACTEW processes with the Sponsorship Policy, particularly as it pertains to the approval process governing sponsorships.
4. Sponsorship payments reviewed and approved through the management structure could be individually tabled for acknowledgement at each subsequent Board meeting (rather than the existing practice on a quarterly basis) and published on ACTEW's website on an on-going basis to further support the public disclosures made by ACTEW of such payments through its annual report.
5. The Corporate Governance and Nomination Committee Charters should define the length of Board members appointments.
6. ACTEW should consider defining the role of its Board and any Sub-committee(s) in the oversight and monitoring of third party arrangements. This is particularly relevant to the arrangement with ActewAGL to provide corporate services to ACTEW. PwC notes that ACTEW management has dedicated resources to address this issue and is currently developing a detailed strategy.

3.2 Governance Structure

Organisations should maintain a Board with effective composition, independence, size and commitment to adequately discharge its responsibilities and duties.

In addition to stakeholder interviews and on-site analysis, PwC's observations and recommendations pertinent to ACTEW's governance structure are made having had regard to the:

- Constitution of ACTEW Corporation Limited;
- Corporate Governance Charter;
- Directors' Duties and Responsibilities Policy; and
- A sample of Board and Board sub-committee meeting minutes.

3.2.1 Observations

ACTEW is governed by a Board of a size and composition that is appropriate to the relative size and complexity of the Corporation. It comprises seven members; six being independent as well as an independent Chair. The Board is supported by four sub-committees responsible for supporting high level direction and control. The Board and sub-committees are also able to consult external parties as required. Responsibilities and reporting lines of these sub-committees to the full Board have been established. The existing sub-committee structure provides a framework for the ACTEW Board to manage risk, monitor performance and discharge its responsibilities. The ACTEW Board sub-committees are:

- Audit and Risk Management Committee (ARMC);
- Nomination Committee;
- Remuneration Committee; and
- Safety and Environment Committee.

There is a formal process in place for the appointment of members to the Board. Candidates are reviewed by the Nomination Committee and then further reviewed and appointed by the Shareholders. The latter includes regard to the expertise or skills necessary to assist ACTEW to achieve its principal objectives.

The Nomination Committee was established to advise on the composition and performance of the Board to ensure the Board adequately discharges its duties and responsibilities. The Remuneration Committee sets the remuneration and employment terms and conditions for the Managing Director, and receives the results of the Managing Director's annual reviews of executive performance.

All Directors of ACTEW are members of both the Nominations Committee and the Remuneration Committee. The Managing Director is restricted from making decisions regarding his own remuneration and formal governance procedures (such as his exclusion from parts of meetings involving this or related issues) are employed to ensure that this conflict is managed appropriately.

The ARMC is ultimately responsible for risk management policies and procedures, as well as the internal and external audit programs. The ARMC consists of four members of the Board. ACTEW does not allow the Chair of the Board to be a member of the ARMC. This is consistent with good governance principles observed by PwC.

The Safety and Environment Committee was established in July 2012 to promote the safety and environmental performance of ACTEW. The Board may appoint members to the committee but it is required that the balance be majority independent, non-executive directors.

While ACTEW does not have a specific 'Diversity Committee' (which is increasingly a feature of corporate governance frameworks), the Board is responsible for this. PwC noted reporting of ACTEW's organisational staff diversity profile and diversity needs at a Board level.

While the Board and Audit and Risk Management Committee of ACTEW and ActewAGL are distinct legal entities with separate obligations, these groups include common members and stakeholders. Within the general community there is a risk that the distinction between ACTEW and ActewAGL is misunderstood, due also in part to the commonality of brand. The governance arrangements in place allow for, and as has historically been the case, the Chairperson role in ActewAGL to rotate every two years, alternating between nominations from each party to the joint venture. In recent years, renewed nominations have been accepted, resulting in a common Chairperson for both ACTEW and ActewAGL for an extended period.

The structure of the ActewAGL Board is governed by the requirements of the Umbrella Agreement between the joint venture parties. We also acknowledge the benefits that arise from common Board memberships in joint venture arrangements. Notwithstanding this, there is also potential for the common memberships at Board level, combined with the external challenge in delineating between the two organisations, to introduce reputational risks for ACTEW associated with perceptions that generate in the public domain through various sponsorship and marketing activities conducted jointly or by each entity. In addition, risks can also arise for ACTEW in relation to the oversight of commercial contracts in place for the provision of services from ActewAGL.

Given the significant nature of the role of ActewAGL in providing services to ACTEW, in addition to the public and stakeholder management perception risks, ACTEW should give consideration as to how these matters can be further managed.

3.2.2 Opportunities for improvement

1. The ACTEW Board is implementing an annual self-assessment of its performance to identify areas of strength and areas for improvement or where additional training or expertise could be provided.
2. ACTEW should consider providing greater detail in its Charters and supporting policies and procedures for its four Board sub-committees that better articulate detailed standard practices. This could include an annual review of sub-committee performance against roles and responsibilities (similar to the proposed Board self-assessment process). This would enable agenda items and minutes to more clearly demonstrate the duties discharged by the Board.

This opportunity may also include:

- a. Improving the ARMC Charter by providing further clarity on:
 - i. Committee member tenures.
 - ii. The roles and responsibilities of the Committee with respect to the internal and external auditor.
 - iii. The relationship with the Board.
 - iv. Risk assessment and management activities, particularly with respect to AS/NZ ISO 31000.
 - v. Oversight of the Corporate Services Agreement.
 - b. Further clarification for the nomination committee around the process for inviting non-members and engaging external consultants to meetings, and to inform decisions.
3. Consideration should be given to creating a stronger delineation between brand in addition to the length of tenure that the Chairperson of both the ACTEW and ActewAGL Boards be occupied by the same individual. Whilst separation of these roles would reduce the risk associated with external perceptions, in this regard, consideration could be given to achieving more regular rotation of the ActewAGL Chairperson role. We understand that the Board is also giving consideration to a potential rebranding of ACTEW and that the structural relationship with ActewAGL will be further considered as part of the institutional structural review recently commissioned by the shareholders. As a starting point however, ACTEW should formally document these risks and formulate mitigation strategies it considers appropriate in the short, medium and longer terms.
 4. ACTEW's Audit and Risk Management Committee has a key role to play in the oversight of risks attached to the Corporate Services Agreement. The oversight of these risks should be more formally integrated into the ARMC charter.

3.3 *Ethical Decision Making*

Organisations should actively promote ethical and responsible decision-making by establishing a framework of policies, procedures, training and validation to achieve the organisation's strategic and operational objectives.

In addition to stakeholder interviews and on-site analysis, PwC's observations and recommendations pertinent to ethical decision making are made having had regard to:

- Corporate Governance Charter;
- Business Activities Policy;
- Administrative and Financial Delegations Schedule;
- Code of Conduct;
- Directors' Duties and Responsibilities Policy;
- Conflicts of Interest Policy;
- Gifts Policy;
- Sponsorships and Donations Policy;
- ACTEW Induction Pack; and
- Fraud and Security Policy.

3.3.1 *Observations*

PwC has observed that a decision making framework is in place to support ACTEW's objectives of efficiency, sustainable return, social responsibility; and ecologically sustainable development through the actions of its staff. ACTEW promotes ethical decision making by cascading the responsibilities and objectives from the SCI into their governance decision making framework. This relies on the successful implementation of policies and procedures, on the job training, and annual employee and organisational values based performance measurement to embed key strategic priorities.

ACTEW relies, in part, on having personnel that share in the significant corporate memory of technical knowledge, experience and skills to understand their core business, monitor and report activities, ensure operational and financial performance, and ensure that governance, legal and regulatory requirements are met.

There is active promotion of the ethical and responsible decision making framework in place at ACTEW. This is supported by the Corporate Philosophy, the Code of Conduct, the Statement of Corporate Intent, induction materials, training materials, the Security Handbook, and the measures used in the Staff Incentive Scheme.

On-boarding forms a key component of embedding the ACTEW culture and practices. From the outset, employees are inducted by the shared services human resource team, and, as well as completing equal opportunity modules, employees require sign-off from IT, HR, security, safety and their supervisor, before they are allowed to sign the declaration that they have read and understood key policies and procedures.

Members of the Board are provided with a comprehensive Director's Manual, which includes the Directors' Duties and Responsibilities Policy. This captures the requirements of directors under the Corporations Act, particularly for the key duties owed by each to ACTEW, the obligation for the disclosure of conflicts and whistleblower procedures. These procedures are supplemented by a detailed guide for fraud, whistle-blowing and security which is provided as part of the induction pack to all staff.

To provide ongoing guidance for decision making for staff, policies and procedures approved by the Managing Director are made available to all employees via the ACTEW intranet. ACTEW maintains overarching policy documents for key topic areas such as finance, risk management and human resources. Under each of these documents are more specific policies. These policies are maintained on an intranet that is accessible to all ACTEW staff in a consistent and transparent manner. Responsibility for these documents on the intranet rests with the Company Secretary.

ACTEW also maintains high-level guidance and policies specific to its Board of directors outside of this policy framework.

The foundations for ethical decision making are reiterated through a number of means, including the staff incentive scheme. The ACTEW staff incentive scheme is a lever used by management to set the cultural rhythm of ACTEW by outlining ten equally weighted key measures of staff and business units' objectives. Meeting one or more unlocks organisation wide incentives for staff. In FY13, these measures include employee safety, employee health and wellbeing, strategic priorities, compliance, and customer service standards.

Sponsorship, corporate marketing and entertainment, and advertising, require senior employees with delegated responsibilities to make decisions that will achieve the objectives set out in the SCI. PwC reviewed procedures and framework documentation for sponsorship, corporate marketing and entertainment. These were found in the:

- Corporate Philosophy;
- Sponsorships and Donations Policy;
- Gifts Policy;
- Sponsorships and Donations Policy; and
- Code of Conduct.

Together these policies require appropriate approval for expenditure decisions in these areas and consideration of ACTEW's objectives as a Territory owned Corporation. The Board sets a budget for sponsorship expenditure. However, the Board is not responsible for approving sponsorship decisions. PwC observed that, based on the budget set by the Board, the Company Secretary assesses the merits of the request and makes a recommendation that is then approved by the Managing Director, reported quarterly to the Board and published in the Annual Report.

Based on a sample of transactions PwC observed that the Company Secretary and either delegated executives or senior managers were involved in the approval or decisions and operational expenditure. For example, sponsorships and donations are approved by the Managing Director in the categories of:

- Community Support Program.
- Major Events Program.
- Canberra Centenary Sponsorships.

PwC's sample of transactions was observed within the context of the overarching governance framework. The expenditure decisions observed support the main objectives of ACTEW as a Territory owned Corporation. These are:

- It will provide benefits to the ACT community and/or direct support, engagement and participation.
- It is relevant to ACTEW's broad interests, activities, responsibilities and mandate (corporate intent/strategy).
- It demonstrates and confirms that ACTEW is a socially responsible organisation and a good corporate citizen.
- It provides opportunities to form networks and relationships within the community and with business.

ACTEW separates the request for and execution of payments. The finance team is responsible for the submission of payments via the Oracle system. This process is conducted when expenses are approved for payment by ACTEW staff with the appropriate delegation. However, PwC noted some informal application of the expense approval process that may lead to a lack of audit trail and thus difficulty in ex-post justification.

ACTEW maintains a gifts register that is intended to capture any gifts given or received by ACTEW staff from third parties. Notwithstanding the fact that the register has only been in place since October 2012, PwC noted that the register had no entries as at the beginning of March 2013. While this may be correct, it is also possible that the register is either not understood or not being used as intended by ACTEW staff.

3.3.2 Opportunities for improvement

1. ACTEW should consider:
 - a. reviewing its Gifts policy to better articulate what type of personal gain or benefit the policy covers and what events trigger disclosure requirements;
 - b. including gifts offered (in addition to gifts given) in its policy;
 - c. reviewing the policy to define to whom its provisions extend (for example, associates and dependents of decision makers); and
 - d. providing suitable training for relevant staff.
2. ACTEW should consider a review of the Code of Conduct policy, in that:
 - a. the Code of Conduct references “conflicts of interests or duty” at Section 4. However, it does not define either term with a clear explanation;
 - b. the Code does not deal explicitly with related party transactions, notwithstanding that Section 5 (Corporate Opportunities) does mention the requirement to keep personal or external business dealings separate from those conducted on behalf of ACTEW; and
 - c. related party transactions could be explicitly covered in the Code of Conduct (and referenced elsewhere as appropriate) in order to ensure that this facet of ethical and responsible decision making is dealt with clearly.
3. With respect to conflicts of interest, ACTEW should consider:
 - a. clearly articulating the ongoing obligation to avoid and declare actual and potential conflicts of interest. This will ensure any subsequent conflicts are also managed.
 - b. pro-actively monitoring Directors’ interests through the use of ASIC searches, for example; and
 - c. including a standing item on the Board agenda for conflicts of interest to be declared at the commencement of every meeting. This could also reference the list of sponsorship tabled at each meeting.
4. The Sponsorship Policy could benefit from greater clarity of the risks associated with the decision making procedures/considerations for donations and sponsorship. The procedure could further consider:
 - a. Documenting clear delineation from marketing activities;
 - b. The risks (particularly reputational) associated with sponsorships;
 - c. Strategic objective and alignment to SCI;
 - d. Sponsorship agreements;
 - e. Effective resource management;
 - f. Monitoring and review of performance; and
 - g. Reporting and accounting.

5. The process for entertainment and hospitality should be documented to support the Gifts Policy. This procedure should include the use of the tax team in accounting for and maintaining records for FBT purposes.
6. While there is an existing policy, and reporting and disclosure provisions for potential and actual conflict of interests and related party transactions by Board members, Board specific systems and processes, could be strengthened by:
 - a. Providing greater guidance and examples of what an actual or perceived conflict of interest is, including giving consideration to potential links to organisations that may from time to time, seek assistance from ACTEW through its sponsorship programs.
 - b. Standardising the use of data mining to assist in monitoring, reporting and disclosure requirements.
 - c. Extending the existing process for Board members of declaring interests to include immediate family members – for example: *"This applies to your immediate family members - spouse/spouse equivalent (whether or not a dependent), dependent children and any other persons who receives substantial financial support and over whom significant influence is exercised."*

3.4 Reporting

Organisations should have a structure to independently verify and safeguard the integrity of their financial reporting.

In addition to stakeholder interviews and on-site analysis, PwC's observations and recommendations pertinent to reporting are made having had regard to the:

- Corporate Governance Charter;
- Audit and Risk Management Committee Charter;
- Administrative and Financial Delegations Schedule;
- Sponsorships and Donations Policy; and
- Various ACTEW financial processing policies and procedures.

3.4.1 Observations

ACTEW has a financial reporting framework in place that is supported by both an external and outsourced, internal audit function. A Delegations of Authority review has recently been performed and the associated recommendations are being addressed by the ACTEW Corporate Governance team.

The Board has established an Audit and Risk Management Committee (refer to *Governance Structure*), which consists of four non-executive Directors. The ARMC oversees ACTEW's requirement to annually publish financial reports under the *Annual Reports (Government Agencies) Act*, which are audited by the ACT Auditor-General's Office. ACTEW has received unqualified annual reports for the period under review.

ACTEW outsources its internal audit function, and has an annual program of review developed with the internal auditor and approved by the ARMC. PwC acknowledges the involvement of staff from its Canberra office in the internal audit of ACTEW, which is co-sourced.

ACTEW has a process in place for preparing non-financial annual reporting, though there is not a formal annual reporting methodology. In some areas ACTEW relies on ActewAGL to provide data for this report.

PwC examined the annual reports of a selection of water utility entities and their websites or other forms of communication that were publicly and readily available (see Appendix C for more detail). This exercise was undertaken to assess how ACTEW's sponsorship disclosure information compared to similar disclosure related information for other water utility organisations.

The majority of the water utilities did not disclose detailed financial information regarding sponsorships, grants or donations in their annual reports. Entity A provided a summary of the value of this category of expenditure in the narrative of their report. ACTEW provided the most detailed financial information in their *Annual Report to the ACT Government* as total expenditure was broken down by the amount given to each organisation. Annual reports of the other utilities primarily listed the organisations that they worked with and a long and short description of their overall sponsorship activities. In general terms and relative to its water utility peers, ACTEW discloses a high level of detail relating to sponsorship information through its annual reporting process.

For the same organisations, PwC also reviewed the websites and other publicly available, sponsorship related information. None of these entities disclosed financial information about sponsorships through this means. The majority made available information regarding their sponsored organisations while also providing information about how to apply for sponsorship along with the basic criteria that would be used to assess the application. While ACTEW provided limited information within the Statement of Corporate Intent document that can be found on the ACTEW website, there was not a specific page (or similar) that made sponsorship related information available.

3.4.2 Opportunities for improvement

ACTEW should consider:

1. Introducing additional procedures to better articulate the end to end process for the management and approval of operational expense payments, particularly the way in which the shared services functions fit within the overall finance payment framework. This could also include defining the role of internal certification, quality assurance sign-off or other assurance processes relied upon by those with financial reporting responsibilities.
2. A more consistent approach, supported by policies and procedures, to document, collate and store financial transaction records and the underlying rationale that underpins the transactions, including continued development of the way in which Oracle is used for documenting decisions as part of the of business as usual processes.
3. Creating a documented annual reporting methodology, including assigning responsibility for key disclosures.
4. Given the role of ActewAGL in providing information that ACTEW relies upon for formal external reporting, ACTEW should consider requiring ActewAGL to provide a formal sign-off that the information being relied upon is correct and has been subject the appropriate quality assurance mechanisms. ACTEW should also consider requesting either a right to audit or incorporating an agreed upon procedures engagement on an annual basis over the internal processes and controls within ActewAGL relevant to the services and information provided to ACTEW to provide greater assurance around the controls in place and relied upon by ACTEW. These changes may require an amendment to the Corporate Services Agreement between ACTEW and ActewAGL. Alternatively, consideration could be given to requiring an independent third party to provide some form of assurance that appropriate controls are in place to ensure that information being provided by ActewAGL is appropriate and reliable.

Providing additional clarification on how particular items are processed could also be considered including:

1. Expense approval guidelines for travel and incidental business expenses to ensure the following types of expenses are processed/approved/accounted for, particularly for FBT purposes, in a consistent and compliant manner:
 - a. Meals – sustenance.
 - b. Meals – entertainment.
 - c. Expenses where an expense may consist of both business expenses and private expenses.
 - d. Goods reimbursement – such as food, utilities and mobile phones.
 - e. Accommodation.
2. The Directors Remuneration procedure including:
 - a. Who approved the policy and when.
 - b. What is considered appropriate for Directors expenses.
 - c. What will be considered as reasonable limits for these expenses.
3. The Business Activities Travel with guidance on:
 - a. Private travel incidental to corporate travel.
 - b. Who needs to pre-approve travel.
 - c. What is meant by reasonable accommodation and specifying limits or what is a reasonable cost range.
4. The process for ACTEW auction and charity related purchases would benefit from the implementation of a guidance procedure which articulates the informal processes already in place. This would include creating a register for items purchased, and sign-off when they are provided to staff, customers or otherwise disposed of (such as being donated back to charity).

3.5 Stakeholder Management

Organisations should set out procedures and a strategy for communications with stakeholders to enable balanced and timely disclosures.

In addition to stakeholder interviews and on-site analysis, PwC's observations and recommendations pertinent to stakeholder management are made having had regard to:

- Minutes of the Annual General Meeting;
- Operational and corporate costs and customer satisfaction benchmarking; and
- The re-appointment process of the Managing Director until 2016.

Key operational and financial matters are reported to the shareholders on a quarterly basis. This includes reporting on key elements of progress against the SCI, such as:

- Summary of financial performance;
- Water security and major project outcomes;
- Progress of integration of the water business into ACTEW; and
- Environmental performance.

There is also an Annual Report that is provided to the shareholders before being tabled in the ACT Legislative Assembly.

3.5.1 Observations

ACTEW communicates with its employees, shareholders and the ACT community on an ongoing basis through a variety of media. All corporate communications with shareholders are handled, or signed off by, either the Chairman or Managing Director. PwC observed on-going communication with shareholders through substantial regular reporting.

ACTEW pro-actively conducted a cultural and stakeholder management assessment which included a number of consultations with key stakeholders. This was conducted as part of the business transformation strategy and is providing meaningful insights into opportunities for improvement.

3.5.2 Opportunities for improvement

1. To help in ensuring there is transparency in ACTEW's marketing and communications and explicitly link marketing, communications and strategy, ACTEW should include details as to the way in which the objectives as a Territory owned Corporation are included in the draft Marketing and Communications Strategy.
2. ACTEW should develop a continuous disclosure policy to guide the proactive release of information on an ongoing basis. This should be informed by the risk management process and disclosure information could be risk rated from an operational and reputational perspective.
3. ACTEW could enhance current processes in place for ongoing reporting to shareholders so that higher risk matters are more clearly drawn out and visible in the on-going communication to shareholders. It should not represent an additional layer of compliance but build on and improve business as usual processes.
4. Decisions deemed material should also be supported by risk assessments (including stakeholder considerations where relevant) that accompany recommendations made to the relevant delegate(s). The level of materiality should be determined by ACTEW with input from ACTEW's shareholders.

5. ACTEW could consider undertaking and publishing an annual self-assessment process regarding stakeholder management, extending beyond its shareholders to include wider stakeholders such as the ACT community. This will improve transparency of ACTEW's performance against its corporate objectives.
6. An annual self-assessment process regarding shareholder management should be undertaken and consideration given to conducting a formal annual shareholder assessment. This could involve meeting with shareholders to receive their feedback on ACTEW's communication and performance
7. Given the role of the ACT community as a stakeholder, ACTEW should consider making information relating specifically to its decisions regarding sponsorship publicly available on a page of its external website. This would improve stakeholder communications with respect to discretionary expenditure such as sponsorships.

3.6 Risk Management

Organisations should establish policies for the oversight and management of material business risks so that the Board can be satisfied that there are appropriate risk management systems and processes in place to identify and manage risks.

In addition to stakeholder interviews and on-site analysis, PwC's observations and recommendations pertinent to risk management are made having had regard to the:

- Audit and Risk Management Committee Charter;
- Risk Management Framework;
- Corporate Governance Framework;
- Code of Conduct;
- Accounting and Finance Framework; and
- Human Resources Framework.

3.6.1 Observations

PwC reviewed ACTEW documentation concerning the recognition and management of risk. The basis of PwC's assessment is, amongst other things, Principle 7 of the *ASX Corporate Governance Principles and Recommendations*. PwC's observations take into account the relative size and complexity of ACTEW with respect to the risk management principles and controls that are in place.

ACTEW has an Audit and Risk Management Committee in place to provide oversight for the key risk management functions of the organisation.

The ARMC consists of four members who also sit on the Board, and are involved with the enterprise risk register and risk transition planning. Further, risk and safety objectives are elements of employee induction, and the organisation wide values based incentive scheme.

PwC observed the risk register maintained by ACTEW. The register is large and captures a wide range of risks in significant detail. PwC observed the submission of the register to the Board through the ARMC and the discussion, based on a review of the relevant minutes. If managed appropriately, the register will serve ACTEW with a satisfactory 'first line of defence' for the purposes of risk management.

The risk management framework is a high level document. The framework articulates its purpose from a governance perspective and sets out the ultimate responsibility of the ARMC for controls around risk assurance. A policy review is conducted on an annual basis and this was evidenced by a review in October 2012. From a governance perspective, matters appear to be covered at the discretion of the Board, which articulates a generally risk-averse position as indicated by the content of the minutes we observed.

While ACTEW attempts to identify and assess risk appropriately, the overarching governance framework for risk management appears to be less mature compared to other governance and policy frameworks maintained by ACTEW, particularly given the significant role played by risk management in ensuring that ACTEW achieves its corporate goals in an effective and sustainable manner.

Following the structural changes to the organisation including the internalisation of the water business, ACTEW has recently reviewed its approach to risk management, implemented a risk transition plan and significantly refined its risk register. A new risk management framework and several supporting risk documents are currently being produced by the risk management function within ACTEW Finance. PwC notes that this remains a work in progress.

3.6.2 Opportunities for improvement

1. ACTEW's risk management would be strengthened by the formal establishment of an enterprise wide risk management framework, including greater depth in the definition of the consequence rating used to assess risk (to include, for example, reputation, community perception and shareholder risks). At a high level this should include sections covering:
 - Internal environment – How is risk understood and viewed;
 - Objective setting – To align risk to the overarching strategic objectives;
 - Event identification – That will negatively achievement of objectives;
 - Risk assessment – Likelihood and impact, inherent and residual basis;
 - Risk response – Aligned to risk tolerance and appetite in the internal environment;
 - Control activities – Policies and procedures;
 - Information and communication – Capture information and feed it up, down and across; and
 - Monitoring – Both BAU and management and Board oversight.
2. The risk register may not provide sufficient room for a forward looking and risk based approach to further mitigate the risks that ACTEW is exposed to. While the register appears to serve an important purpose functionally and operationally in managing risk, it does not in and of itself manage or mitigate risk. The size and complexity of the risk management burden for ACTEW suggests that risk should be front of mind for all staff in ACTEW operations and management. The risk management function should serve as an expert advisor, as well as measure and report on capabilities. The growing size and complexity of ACTEW appears to justify a more sophisticated and holistic approach to risk management. The Board may see value in delegating this to an expanded management function. Currently the risk manager employed by ACTEW is part of the finance reporting structure, which is also a control function, but a distinctly separate one from risk management. While the Territory owned Corporations Act, charges the Board with the function of monitoring internal controls and performance, this does not require the Board to be operationally involved in the risk management function itself.
3. ACTEW should also consider developing a formal risk appetite statement (or equivalent document) that stipulates the nature and extent of various risks that ACTEW is willing to be exposed to (on an inherent as well as residual basis) in the pursuit of its corporate goals as defined in the SCI.
4. A senior manager of risk, safety and emergencies has been employed and a risk register has been established. However, the importance of the risk function for a corporation of ACTEW's current and future size and complexity, may necessitate further personnel, expertise and resources in order to adequately consider, address, monitor and manage the collective set of risks it faces. An underweight risk management function significantly increases the likelihood that the second line of defence (being the risk management function) will not be able to satisfy the demands of the first line (business) functions. It also needs sufficient time to consider the overall risk management strategy of the corporation and propose amendments and/or enhancements to the ARMC and Board where appropriate.
5. As most projects owned and managed by ACTEW in its own right are fairly new, ACTEW should consider developing and implementing a detailed project risk management methodology (and a broader project management methodology). The lack of a project risk management methodology means ACTEW Corporation projects are not formally subjected to risk measurement and management on an ongoing basis, which will become more serious as the quantity and complexity of projects increases commensurate with the size of the corporation.

3.7 Remuneration

Organisations should have a set process for employee performance evaluation, and the remuneration and performance of the managing director should be assessed by an independent Remuneration Committee.

In addition to stakeholder interviews and on-site analysis, PwC's observations and recommendations pertinent to remuneration are made having had regard to the:

- Remuneration sub-committee;
- Remuneration sub-committee Charter; and
- Director's Remuneration procedures.

3.7.1 Observations

Together the committee and the documents referenced set out the:

- Terms of reference for the Remuneration sub-committee which meets at least annually.
- The requirement that the Remuneration sub-committee is composed of the same members as the ACTEW Board, which by virtue of the Charter and the Corporate Governance Charter, requires that more than half of the sub-committee is independent, including the Chair.

PwC considered the framework in place for remuneration but not the appropriateness of the remuneration as part of the ACTEW governance assessment.

ACTEW has previously engaged third parties to provide guidance to the Board in relation to establishing employment conditions and remuneration for the Managing Director and staff.

Remuneration levels including bonus structures are articulated in employment contracts and enterprise agreements. ACTEW has established a Remuneration sub-committee which consists of the independent members of the Board, and the Managing Director.

The Managing Director provides the Board with the outcomes of the assessments for senior managers and the staff responsible for them and presents a summary of the bonuses and salary for senior management and the staff annual performance incentive scheme.

The Managing Director conducts an annual self assessment of his performance against targets in the Statement of Corporate Intent. This is reviewed by the Remuneration sub-committee and the Board before recommending and approving performance based payments. The Managing Director leaves the room and allows the independent members to assess his performance, and contributions against key strategic and business decision outcomes.

The 22 June 2011 Remuneration sub-committee meeting minutes noted that the Committee approved "*the agreed short term, long term and special performance bonuses for 2010-11*". The dollar figures that corresponded to the agreed bonuses were not included in the minutes. PwC observed that the Managing Director's bonus figures were not approved or communicated in dollar figures at the time of the *2010-11 Annual Report to the ACT Government*.

3.7.2 Opportunities for improvement

A specialist independent consulting firm is currently engaged to assist in the development of ACTEW's overall remuneration strategy. Outcomes of this process will continue to inform ACTEW in developing and amending remuneration policies and procedures. This process will also inform strategy for mitigation of key person dependency risk. It is envisaged the outcomes of this process will also inform changes to the Executive Agreement in place for employment of the Managing Director.

Specific opportunities for improvement in regard to remuneration are noted below.

1. ACTEW's remuneration governance will benefit from the implementation of a Remuneration Policy. A Remuneration Policy should be developed to:
 - a. Include remuneration objectives.
 - b. Include the structure of the remuneration arrangements, including performance-based remuneration.
 - c. Include elements of the Managing Director's performance evaluation.
 - d. Include narrative in such a way that it encourages senior executives to pursue the long-term growth and success of ACTEW.
 - e. Define clear and measurable relationships between senior executives' performance and remuneration.
 - f. Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.
2. The Remuneration sub-committee Charter could be revised to:
 - a. Provide terms of reference for the remuneration of the Managing Director, Committee members and senior management.
 - b. Provide greater detail about the way in which the Committee will review/ challenge/ approve/ recommend the assessment of the Managing Director. In particular, special performance bonuses could be aligned to measurable and achievable goals so the Board can approve bonuses against target metrics.
 - c. The Charter could provide for the ownership/responsibility for the key remuneration related human resource policies.
3. To reduce the risk of error and ensure there is transparency, the Remuneration Committee should approve bonuses in dollar figures and remuneration totals should be broken down by component parts. This will also provide a record of the agreed figures allowing reported figures to be easily reconciled. This will also reduce the risk of calculation errors occurring as remuneration will be agreed in nominal figures rather than based on a set of parameters.
4. The Non-Executive Director Remuneration Policy should be reviewed, noting who approved the policy and clarifying the basis on which non-executive directors are paid.

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Appendix A *ACTEW Board, Staff and Stakeholders Consulted*

NOTE: The positions noted below were current when conducting the field work for this review and accurately reflect the consultations undertaken at the time. PwC note that due to on-going staffing movements at ACTEW, changes may have been made to the roles and positions listed, which may not exactly reflect the same roles and positions in place at the time of issuing the final report.

Name	Position
Mark Sullivan	Managing Director
Michele Norris	Company Secretary & Executive Manager Governance
Simon Wallace	Chief Financial Officer
Chris Hodge	Senior Manager Corporate Communications
Craig Richardson	Senior Manager Corporate Services Liaison
Irene Quah	Senior Manager Finance & Accounting
James Titterton	Senior Manager Risk & Emergency Management
Gareth Burden	Project Manager
Craig Baxter	Senior Financial Accountant
Rena Kos	Finance Officer
Jodie Constable	Governance Officer – Office of the Company Secretary
Chris Breaden	Communications Officer
Hannah Burns	Communications Officer
Kelvin Loh	Manager Financial Strategy and Planning
Yolanda Leung	Financial Accountant
John Mackay	Chairman
Michael Easson	Deputy Chairman
Katy Gallagher	ACT Chief Minister
Andrew Barr	ACT Deputy Chief Minister

Appendix B *Policy and Procedural Documents Assessed*

Document Reviewed	Document Version Date
Budgets Procedure	1 October 2012
Corporate Credit Cards	1 October 2012
Payment Processing	1 October 2012
Petty Cash	1 October 2012
Rental, Hire and Operating Lease Agreements	1 October 2012
Customer Service and Complaints	1 October 2012
Gifts	1 October 2012
New Businesses, Products and Systems	1 October 2012
Travel	1 October 2012
Advertising	1 October 2012
Brand and Use of Branding	1 October 2012
Contact with the Media	1 October 2012
Internal Communications	1 October 2012
Public Corporate Documents	1 October 2012
Social Media	1 October 2012
Website and Intranet	1 October 2012
ACTEW Directors' Expenses of Office	1 October 2012
Code of Conduct	June 2012
Corporate Philosophy Statement	22 May 2012
Establishing and Maintaining an ACTEW-wide Policy or Procedure	1 October 2012
Legal and Regulatory Compliance Statement	22 May 2012
Managing Director and Executives' Expenses of Office	1 October 2012
Ministerial and Legislative Assembly Communications	1 October 2012
Sponsorships and Donations Policy	1 October 2012
Employee Background and Criminal History Checks	1 October 2012
Harassment, Bullying and Vilification	Version 1: 1 October 2012 Version 2: 8 February 2013
Job Evaluation and Classification	1 October 2012
Overtime and Meal Allowance Payments	1 October 2012
Payment and Deferral of Increments	1 October 2012
Personal Performance Development Plans	1 October 2012
Recruitment, Induction and Prior Public Service	1 October 2012

Document Reviewed	Document Version Date
Setting Personal Performance Targets Under Management Service Agreements	1 October 2012
Sexual Harassment	Version 1: 1 October 2012 Version 2: 8 February 2013
Shooting Stars Program	1 October 2012
Staff Promotions and Transfers	1 October 2012
Staff Resignations	1 October 2012
Study Assistance	1 October 2012
Confidential Information	1 October 2012
Conflicts of Interest Policy	1 October 2012
Legal Action or Threat	1 October 2012
Privacy	1 October 2012
Public Interest Disclosures	1 October 2012
Tendering and Contracting	1 October 2012
Constitution of ACTEW Corporation Limited	
Corporate Governance Charter	
Corporate Philosophy Statement	
Directors' Duties and Responsibilities Policy	1 October 2012
Statement of Corporate Intent (2012 – 13 to 2015 – 16)	
Administrative and Financial Delegations Schedule	
A sample of Board and Board sub-committee minutes	Various
Business Activities Policy	1 October 2012
ACTEW Induction Pack	
Fraud and Security Policy	1 October 2012
Audit and Risk Management Committee Charter	
Various ACTEW financial processing policies and procedures	Various
Risk Management Framework	1 October 2012
Accounting and Finance Framework	1 October 2012
Human Resources Framework	1 October 2012

Appendix C *Reporting Comparisons*

Entity Name	Annual Report				Website/Other Communications		
	Narrative (Detailed, Summary, None)	Financial (Detailed, Summary, None)	Section of Report	Observations	Narrative (Detailed, Summary, None)	Financial (Detailed, Summary, None)	Observations
Entity A	Summary	Summary - only in narrative	N/A	Provides a summary of the work they do with the organisations they support and aggregate totals for funds granted by category (sponsorships, donations, in-kind support and total).	Summary	None	Lists the organisations that they sponsor (does not say if this is a complete list) as well as a brief summary of what Entity A does with each organisation. Provides a sponsorship request form, a sponsorship and donations policy and provides criteria as to who/what they do not sponsor.
Entity B	Summary - no financial information	None	N/A	Provides a summary of the work they do with the organisations they support but does not provide any financial information.	Summary	None	Provides a high level statement for the sponsorship program and outlines the application process. Also provides information of sponsorship programs in Stakeholder reports. Provides some detail of organisations they support. Provides the sponsorship application form and provides sponsorship guidelines.
Entity C	Summary - no financial information	None	N/A	Provides a summary of the work they do with the organisations they support with some in depth examples regarding their education programs. Report states only 'key sponsorships'. Does not provide any financial information.	Summary	None	Lists the organisations that they sponsor. Does not state whether this is a complete list. Provides a process for applying for sponsorship, a sponsorship policy and well their sponsorship policy and criteria.

Entity Name	Annual Report				Website/Other Communications*		
	Narrative (Detailed, Summary, None)	Financial (Detailed, Summary, None)	Section of Report	Observations	Narrative (Detailed, Summary, None)	Financial (Detailed, Summary, None)	Observations
Entity D	Summary - no financial information	None	N/A	Provides an example where they supported flood affected communities. No detail in relation to the specific organisations they support. Does not provide any financial information.	Summary	None	Lists the organisations that they sponsor as well as a brief summary of what each organisation does. Does not state whether or not this is a complete list. Provides sponsorship application forms as well as criteria as to who/what they sponsor.
Entity E	Summary - no financial information	None	N/A	Outlines their strategy in relation to community partnerships and give some statistics regarding a few of these partnerships. Does not provide any financial information.	Summary	None	Lists the organisations that they sponsor and provides links to their websites. Does not state whether or not this is a complete list. Provides an email address for the application process, provides very limited sponsorship criteria.
Entity F	Summary - no financial information	None	N/A	Provides a summary of the work they do with some of the organisations they support. Does not provide any financial information.	Summary	None	Provides a statement about the sponsorship program. Does not list any of the organisations they sponsor. Provides a link to their application process as well as criteria for organisations that they sponsor.
Entity G	None	None	N/A	N/A	Summary	None	Lists the organisations that they sponsor as well as a brief summary of what each organisation does. Does not state whether or not this is a complete list. Provides an application form and provides sponsorship criteria.
ACTEW - Annual Report to the ACT Government / website	Detailed	Detailed	Legislative and Policy Based Reporting - Community Grants/ Assistance/ Sponsorship	Provides a list of the organisations they support. A detailed list of all the community events / organisations that they have sponsored with the amount given to each one.	None	None	Limited statements about sponsorship can be found in the Statement of Corporate Intent PDF file contained on the website.

