



# Audit & Risk Management Committee Charter

August 2014

If there are any questions in relation to this Charter,  
please refer to the Company Secretary.

**CLAYTON UTZ**

# Audit & Risk Management Committee Charter

## Greencross Ltd and its subsidiaries (the Company)

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### 1. Introduction

#### 1.1 Purpose of Charter

This is the Charter of the Audit & Risk Management Committee established by the Board of the Company (the **Charter**). The Charter governs the operations of the Audit & Risk Management Committee. It sets out the Committee's role and responsibilities, composition, structure and membership requirements.

#### 1.2 Purpose of Committee

The Committee has been established to assist the board of the Company (**Board**) in fulfilling its corporate governance and oversight responsibilities in relation to the Company's financial reports and financial reporting process and internal control structure, risk management systems (financial and non-financial) and the internal and external audit process. Accordingly the Committee will meet on a regular basis to:

- (a) review and approve internal audit and external audit plans;
- (b) update the internal and external audit plans;
- (c) review and approve financial reports; and
- (d) review the effectiveness of the Company's compliance and risk management functions.

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### 2. Membership

#### 2.1 Composition of committee

The Committee will:

- (a) comprise only of members of the Board of Directors (**Directors**) and members will be appointed and removed by the Board;
- (b) be of sufficient size, independence and technical expertise to discharge its mandate effectively;
- (c) consist of:
  - (i) at least three members;
  - (ii) only non-executive directors;
  - (iii) a majority of independent<sup>1</sup> directors (**Independent Directors**); and

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<sup>1</sup> Independent, as defined by the ASX Corporate Governance Council. See schedule to this Charter.

- (iv) an independent Chair, who will be nominated by the Board from time to time, but who will not be the Chair of the Board;
- (d) comprise members who are financially literate (as in, members who are able to read and understand financial statements);
- (e) include at least one member who has accounting and/or related financial management expertise (as in, a member who is a qualified accountant or other financial professional with experience of financial and accounting matters) and some members who have an understanding of the industries in which the Company operates; and
- (f) comprise members who will be appointed for a fixed period of no more than 2 years, with Committee members generally being eligible for re-appointment for so long as they remain Independent Directors.

## **2.2 Ceasing to be a member of the committee**

A person will cease to be a member of the Committee if:

- (a) the person gives reasonable notice in writing to the Committee Chair of the person's resignation as a member of the Committee;
- (b) the Committee Chair gives the person notice in writing that the person is to cease to be a member of the Committee; or
- (c) the person ceases to be a Director, in which case the person automatically ceases to be a member of the Committee.

## **2.3 Initial members of committee**

Current members of the Committee are Andrew Geddes (Chair), Matthew Hobart and Stuart James.

## **2.4 Secretary**

- (a) The Committee will have a secretary, which is to be the Company Secretary or such other person as nominated by the Board (**Committee Secretary**).
- (b) The Committee Secretary will attend all Committee meetings.
- (c) The Committee Secretary, in conjunction with the Chair of the Committee, must prepare an agenda to be circulated to each Committee member at least 2 full working days prior to each meeting of the Committee.
- (d) The Committee Secretary will distribute a meeting timetable for each forthcoming calendar year.

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# **3. Meetings & authority of committee**

## **3.1 Meetings**

- (a) The Committee will meet often enough to undertake its role effectively, being at least four times each calendar year.
- (b) The Committee will meet in private session at least annually to assess management's effectiveness.
- (c) The quorum for any meeting will be 2 members.

- (d) Special meetings may be convened as required. The Chair will call a meeting of the Committee if requested to do so by any member of the Committee, by the external auditors or by the Chair of the Board.
- (e) The Committee may invite such other persons (for example, staff, Managing Director/CEO, CFO, external parties) to its meetings, as it deems necessary, whether on a permanent or ad hoc basis.
- (f) The proceedings of all meetings will be minuted and these will be included in the papers for the next Board meeting after each Committee meeting.

### **3.2 Authority**

The Board authorises the Committee, within the scope of its responsibilities, to:

- (a) investigate any matter brought to its attention with full access to all books, records and facilities;
- (b) seek any information it requires from an employee (and all employees are directed to co-operate with any request made by the Committee) or external parties;
- (c) obtain outside accounting, legal, insurance, compliance, risk management or other professional advice as it determines necessary to carry out its duties; and
- (d) ensure the attendance of Company officers at meetings as it thinks appropriate.

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## **4. Duties and responsibilities**

### **4.1 Understanding the Company's Business**

The Committee will ensure it understands the Company's structure, business and controls to ensure that it can adequately assess the significant risks faced by the Company.

### **4.2 Financial Reporting**

The Committee's primary responsibility is to oversee the Company's financial reporting process on behalf of the Board and to report the results of its activities to the Board. The Committee will:

- (a) review the Company's financial statements to determine whether they reflect the understanding of the committee of, and otherwise provide a true and fair view of, the financial position and performance of the Company and other group entities and make any necessary recommendations to the Board;
- (b) review significant accounting policies adopted by the Company to ensure compliance with AIFRS and generally accepted accounting principles;
- (c) ensure that before the Board approves the Company's financial statements for a financial period, that the Board and the Committee first receive from the CEO and the CFO a declaration that, in their opinion, the financial records of the Company and its controlled entities have been properly maintained and that the financial statements comply with the applicable accounting standards and give a true and fair view of the financial position

and performance of the Company and its controlled entities and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively;

- (d) consider financial matters relevant to half yearly reporting in a timely manner; and
- (e) review other financial information distributed externally as required.

#### **4.3 Risk assessment**

The Committee will review and make recommendations to the Board regarding:

- (a) the Company's risk management policy;
- (b) the adequacy of the Company's processes for managing risk;
- (c) any incident involving fraud or other failure of the Company's internal controls; and
- (d) the Company's insurance program, having regard to the business of the Company and its controlled entities and the insurable risks associated with the business.

#### **4.4 Reporting to the Board**

- (a) The Committee will regularly report to the Board on all matters relevant to the Committee's role and responsibilities.
- (b) The Chair will report and as appropriate make recommendations to the Board after each meeting of the Committee on matters dealt with by the Committee.
- (c) As and when appropriate, the Committee will seek direction and guidance from the Board on audit, risk management and compliance matters.
- (d) The Committee will ensure that the Board is made aware of audit, financial reporting, internal control, risk management and compliance matters which may significantly impact upon the Company in a timely manner.

#### **4.5 Assessment of accounting, financial and internal controls**

Periodically, the Committee will meet separately with management, the internal auditors, and the external auditors to discuss:

- (a) the adequacy and effectiveness of the accounting and financial controls including but not limited to the Company's policies and procedures to assess, monitor, and manage business risk and legal and ethical compliance programs;
- (b) the appropriateness of the accounting judgements and choices exercised by management in preparing the Company's financial statements;
- (c) issues and concerns warranting Committee attention, including but not limited to their assessments of the effectiveness of internal controls and the process for improvement.

The Committee will provide sufficient opportunity for the internal auditors and the external auditors to meet privately with the members of the Committee. The

Committee will review any audit problems or difficulties regarding management's response with the external auditor.

The Committee will receive regular reports from the external auditor on the critical policies and practices of the Company, and all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management.

#### **4.6 Appointment of external auditors and scope of external audit**

The Committee will:

- (a) make recommendations to the Board on the appointment, reappointment or replacement, remuneration, monitoring of the effectiveness and independence of the external auditors and resolution of disagreements between management and the auditor regarding financial reporting<sup>2</sup>;
- (b) consider the rotation of the audit engagement partner of the external auditors;
- (c) consider the scope and adequacy of the external audit;
- (d) discuss with the external auditors the overall scope of the external audit, including identified risk areas and any additional agreed-upon procedures; and
- (e) ensure that the terms of appointment of the external auditors includes a requirement to attend the annual general meeting (**AGM**) of the shareholders of the Company and that they are available at the AGM to answer any questions from shareholders relevant to the audit.

#### **4.7 Pre-approval of audit and non-audit services provided by external auditors**

- (a) The Committee will pre-approve all audit and non-audit services provided by the external auditors and will not engage the external auditors to perform any non-audit/assurance services that may impair or appear to impair the external auditor's judgement or independence in respect of the Company.
- (b) The Committee may delegate pre-approval authority to a member of the Committee. The decisions of any Committee member to whom pre-approval authority is delegated must be presented to the full Committee at its next scheduled meeting.

#### **4.8 Assessment of the external audit**

- (a) The Committee, at least on an annual basis, will obtain and review a report by the external auditors describing (or meet, discuss and document the following with them):
  - (i) the audit firm's internal quality control procedures;

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<sup>2</sup> When recommending the appointment of an auditor or assessing potential and continuing auditors, directors and members of the Audit & Risk Management Committee will have regard to best practices, including guidance outlined in ASIC's March 2014 paper on *Audit quality: The role of directors and audit committees* ([ASIC Information Sheet 196](#))

- (ii) any material issues raised by the most recent internal quality control review, or peer review, of the audit firm, or by any enquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and
  - (iii) all relationships between the external auditor and the Company (to assess the auditor's independence).
- (b) The Committee will set clear hiring policies for employees or former employees of the external auditor in order to prevent the impairment or perceived impairment of the external auditor's judgement or independence in respect of the Company.
- (c) The Committee will review and assess the independence and performance of the external auditor<sup>3</sup>, including:
  - (i) a review of any relationships with the Company or any other entity that may impair or appear to impair the external auditor's judgement or independence in respect of the Company;
  - (ii) a review of any appointments of the external auditor to provide non-audit services and whether those appointments may impair or appear to impair the external auditor's judgement or independence in respect of the Company.
- (d) The Committee will draft an annual statement for inclusion in the Company's annual report as to whether the Committee is satisfied the provision of non-audit services is compatible with external auditor independence.

#### **4.9 Assessment of the internal audit**

The Committee will:

- (a) be responsible for the appointment and removal of the head of the internal audit function;
- (b) review the internal auditor's charter and resources to ensure no unjustified restrictions or limitations are imposed upon internal audit staff and that resourcing is adequate;
- (c) consider and discuss the scope and adequacy of the internal audit with the internal auditor, including the internal audit plan, work program and quality control procedures; and
- (d) consider the objectivity and performance of the internal audit function.

#### **4.10 Compliance with Laws and Regulations**

The Committee will:

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<sup>3</sup> When assessing the quality of audits, directors and members of the Audit & Risk Management Committee will have regard to best practices, including guidance outlined in ASIC's March 2014 paper on *Audit quality: The role of directors and audit committees* ([ASIC Information Sheet 196](#))

- (a) gain an understanding of the current areas of greatest compliance risk (financial and non-financial) and review these areas on a regular basis;
- (b) obtain regular updates from management, the Company's legal counsel, auditors and any external parties as it thinks fit regarding audit, risk management and compliance matters and regularly review existing compliance systems and consider any deficiencies in compliance risk measures;
- (c) review any legal matters which could significantly impact the Company's compliance and risk management systems, and any significant compliance and reporting issues, including any recent internal regulatory compliance reviews and reports;
- (d) review the effectiveness of the compliance function at least annually, including the system for monitoring compliance with laws and regulations and the results of management's investigations and follow-ups (including disciplinary action) of any fraudulent acts or non-compliance;
- (e) be satisfied that all regulatory compliance matters have been considered in the preparation of the Company's official documents;
- (f) review the findings of any examinations by regulatory agencies and oversee all liaison activities with regulators.

#### **4.11 Review of media releases, announcements and complaints**

The Committee will:

- (a) review and discuss media releases, ASX announcements and any other information provided to analysts;
- (b) review all representation letters signed by management to ensure that the information provided is complete and appropriate;
- (c) establish procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters; and
- (d) review corporate legal reports of evidence of a material violation of the Corporations Act, the ASX Listing Rules or breaches of fiduciary duties.

#### **4.12 Committee performance**

- (a) The Committee will perform an evaluation of its performance at least once a calendar year to determine whether it is functioning effectively by reference to current best practice.
- (b) The Board will evaluate the performance of the Committee as appropriate.

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## **5. Other matters**

### **5.1 Amendment of Charter**

This Charter can only be amended with the approval of the Board.



## **5.2 Adoption of Charter and periodic review**

This Charter was adopted by the Board with effect from August 2014, and replaces any previous charter in this regard.

The Committee must review and reassess this Charter and the Risk Management Policy at least once a calendar year and, on each occasion, obtain the approval of the Board to any amendments to the Charter or Risk Management Policy. The Board will also review this Charter and the Risk Management Policy periodically.

The Company Secretary will communicate any amendments to employees as appropriate.

## Schedule

### **Independence as defined by the ASX Corporate Governance Council in their Corporate Governance Principles and Recommendations (3rd edition)**

An independent director is a non-executive director who is not a member of management, and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement and to act in the best interests of the Company and its security holders generally.

The corporate governance guidelines provide certain criteria for assessing the independence of directors and outline relationships which may affect independent status. They provide that when determining the independent status of a director the board should consider whether the director:

1. is, or has been, employed in an executive capacity by the Company or another group member, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
2. is, or has within the last three years been, a principal, partner, director, or senior employee of a material professional adviser or a material consultant to the Company or another group member;
3. is, or has been within the last three years, in a material business relationship (such as a material supplier or customer) with the Company or other group member, or an officer of, or otherwise associated directly or indirectly with, someone with such a relationship;
4. is a substantial shareholder of the Company, or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
5. has a material contractual relationship with the Company or another group member other than as a director of the Company;
6. has close family ties with a person who falls within any of the above categories; or
7. has been a director of the Company for such a period that his or her independence may have been compromised.

Family ties and cross-directorships may be relevant in considering interests and relationships which may compromise independence, and should be disclosed by directors to the board.