



McPHERSON'S

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**AUDIT RISK MANAGEMENT AND COMPLIANCE COMMITTEE CHARTER**

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## **AUDIT RISK MANAGEMENT AND COMPLIANCE COMMITTEE CHARTER**

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## **AUDIT RISK MANAGEMENT AND COMPLIANCE COMMITTEE CHARTER**

### **1. Primary Purpose**

The Audit Risk Management and Compliance Committee ("Audit Committee") is established by the Board of directors to oversee, review, evaluate and make recommendations to the Board in relation to:

- The risk management, compliance and control environments;
- Financial reporting; and
- The internal and external audit functions.

### **2. Membership and Operation**

#### **2.1 Audit Committee Membership**

- The Audit Committee will consist of a minimum of three members.
- All members must be non-executive directors.
- The majority of members of the Audit Committee should be independent directors as defined in the Board Charter.

#### **2.2 Chairman**

The Board will appoint the Audit Committee Chairman who must be an independent non-executive director and not be the Chairman of the Board.

#### **2.3 Quorum**

The quorum for any Audit Committee meeting shall be two members.

#### **2.4 Meetings**

- Any non-executive director may attend a meeting of the Audit Committee for the purposes of discussion but is not entitled to vote.
- The Committee is to meet at least 3 times per year, with 2 meetings to coincide with the review of the half-yearly and annual accounts.
- Audit Committee members and all other non-executive directors will be provided with papers by management in relation to meeting agenda items.

## **2.5 Attendance at Meetings**

- The Managing Director and the Chief Financial Officer are to be invited to attend meetings at the discretion of the Committee.
- The external auditor will be asked to be present at meetings convened to review financial statements and the procedures leading to their preparation, and at other times at the discretion of the Committee.
- The internal auditor should be present at all meetings subject to the discretion of the Committee.
- The Audit Committee Secretary should attend all meetings to minute proceedings, subject to the discretion of the Committee.

## **2.6 Appointment of Committee Secretary**

The Company Secretary shall be the Audit Committee Secretary.

## **2.7 Right to Access and Information**

The Audit Committee is entitled to consult with expert advisers and seek expert advice at the expense of McPherson's where it considers it necessary to carry out its duties.

The Audit Committee will have unlimited rights to access internal and external auditors and to senior management. The Audit Committee will also meet separately with the internal auditors, external auditors and senior management at its discretion.

At the discretion of the Audit Committee Chairman separate meetings may also be held with any member of company management.

## **2.8 Reporting to the Board**

The Audit Committee will report to the Board on all matters relating to the Audit Committee's roles and responsibilities as outlined in this Charter.

Reports to the Board will include:

- The Audit Committee minutes;
- Any formal recommendations of the Audit Committee requiring Board approval;
- General information about the audit process including the results of internal and external audits;
- Any determination by the Audit Committee in relation to the external auditors independence; and
- An assessment of whether external reporting is consistent with committee members' information and knowledge and is adequate for shareholder needs;

Reports to the Board may include:

- Assessment of the management processes supporting external reporting;
- Procedures for the selection and appointment of the external auditor and the rotation of external audit engagement partners;
- Recommendations for the appointment or removal of an auditor;
- Assessment of the performance and independence of the external auditors and whether the Audit Committee is satisfied that independence of this function has been maintained having regard to the provision of non-audit services;
- Assessment of the performance and objectivity of the internal audit function; the results of its review of risk management and internal compliance and control systems;
- Written statements from the Chief Executive Officer and the Chief Financial Officer as recommended by Recommendations contained in the ASX Corporate Governance Principles and Recommendations; and
- Details of the annual performance review and its achievement under this Charter.

### **3. Roles and Responsibilities**

#### **3.1 Risk Management, Internal Control and Compliance**

The Audit Committee has a responsibility in the first instance to assess the company's risk management, internal control and compliance systems.

##### *Risk Management*

Management will provide information to the Audit Committee to allow the committee to:

- Evaluate the company's risk management framework;
- Determine the company's risk appetite for each identified risk; and
- Monitor and assess management's process for managing risk and how the business units apply the processes for managing risk.

##### *Internal Control and Compliance*

The Audit Committee will review and evaluate the effectiveness of the entity's risk management, internal control and compliance system including:

- Compliance with Australian laws including trade practices laws and the Corporations Act 2001 (Cth);
- Compliance with the requirements of the Australian Tax Office, the Australian Securities and Investments Commission and the Australian Securities Exchange;
- Compliance with laws in each other jurisdiction in which the company operates;
- Compliance with the company's documented standards, policies and procedures, including the Ethics and Responsible Business Conduct Policy;

- Important judgments and accounting estimates reflected in the financial statements; and
- The adequacy of insurance coverage, including reviewing annual policy renewals.

In addition the Audit Committee will:

- Ensure that where any deficiencies or breakdowns in internal control or procedures are identified, management takes prompt remedial action;
- Review the internal and external auditors' reports and Management Letters for any noted deficiencies or breaches in internal control requirements;
- Assess whether management has controls in place for unusual types of transactions that may carry more than an acceptable degree of risk;
- Consider the company's compliance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations; and
- Review corporate governance related disclosures including the company's annual Corporate Governance Statement.

The Audit Committee will meet periodically with management to understand and discuss the entity's control environment.

The Audit Committee will request views from both the internal and external auditors in order to form a comprehensive view on the effectiveness of the internal control system.

### **3.2 Financial Reporting**

#### *Accounting Policies*

- Management will provide information to the Audit Committee to allow the committee to:
  - Consider the appropriateness of the McPherson's accounting policies and principles and how those principles are applied; and
  - Ensure that accounting policies and principles are consistent with Accounting Standards.
- The Audit Committee will request:
  - views from both the internal and external auditors in order to form a view on the company's accounting policies and principles; and
  - an independent judgment in relation to the appropriateness of the accounting principles from the external auditor.

#### *Significant estimates and judgements and unusual transactions*

- Management will provide information to the Audit Committee to allow the committee to:
  - Assess the significance of estimates in judgments in financial reports by evaluating the process management used in making material estimates and judgements; and
  - To ensure that the Audit Committee is made aware of any unusual transactions, including provisioning and abnormal charges and credits.
- The Audit Committee will enquire of both the internal and external auditors in order to form a view of the basis of management conclusions and the reasonableness of their estimates.

#### *Quality of financial reporting*

- The external and internal auditors will provide information to the Audit Committee to allow the committee to assess information that affects the quality of financial reports including:
  - Actual and potential material audit adjustments;
  - Financial report disclosures;
  - Non-compliance with law; and
  - Internal control issues.

#### *Disclosure processes for financial reporting*

- Management will provide information to allow the Audit Committee to review and assess management processes for ensuring compliance with laws, regulations and accounting standards relating to external reporting.

#### *Recommendations on financial reports*

The Audit Committee will:

- review the questionnaires and written statements from the Chief Executive Officer and the Chief Financial Officer; and
- make recommendations to the Board in relation to the approval of the financial statements based on the committee's assessment of them.

### **3.3 External Audit**

#### *Appointment and Removal of the External Auditors*

- The Audit Committee will make recommendations to the Board on the appointment, and where necessary the removal of the external auditor. The lead audit partner is required to rotate at least every five years with a minimum two-year "cooling off" period before being reappointed to the audit team; and

- In making any recommendation to the Board, the Audit Committee must first ensure that any suggestions by management that the audit needs to be put out to tender are examined closely by the Audit Committee to ensure there is a valid reason for removal.

#### *External Auditors Fees*

- The Audit Committee will review the external auditors fees in relation to the quality and scope of the audit with a view to ensuring that an effective comprehensive and complete audit can be conducted for the fee; and
- At the start of each audit agree the terms of engagement with the auditor.

#### *Review of Audit Plan*

- The Audit Committee will invite the external auditor to attend Audit Committee meetings to review the audit plan, discuss audit results and consider the implications of the external audit findings for the control environment; and
- Together with the external auditor, review the scope of the external audit particularly regarding any identified risks.

#### *Monitoring Management Responses*

- The Audit Committee will monitor management's responses to the recommendations made by the external auditors in their half year and annual post audit Management Letters.

#### *Relationship with External Audit*

- The Audit Committee will meet with the external auditors from time to time without management present;
- The external auditors have an unrestricted right to discuss any issues they deem necessary with the Audit Committee Chairman or if deemed necessary by the external auditors the Chairman of the Board; and
- The internal audit function will not be undertaken by the external auditors.

#### *Auditor Independence*

- The Audit Committee will review the external auditors procedures for independence on an annual basis together, with any relationships or services which may impair the external auditors independence; and



- The Audit Committee will require the external auditors to confirm that they have complied with all professional and regulatory requirements relating to auditor independence prior to the completion of each year's accounts.

#### *Assessment of External Audit*

The Audit Committee will evaluate the overall effectiveness of the external audit function, including through the assessment of external audit plans and reports, and meetings with the external auditors.

### **3.4 Internal Audit**

#### *General*

- The Audit Committee will make recommendations to the Board on the structure of the internal audit function and whether that function should be undertaken internally by management (for instance under the direction of the Chief Financial Officer), or outsourced to an appropriate external party (such as a Chartered Accounting firm) ("Outsourced Internal Auditor").

#### *Appointment and Removal of the Outsourced Internal Auditors*

- The Audit Committee will make recommendations to the Board on the appointment, and where necessary the removal of the internal auditor.

#### *Internal Audit Function*

- The Audit Committee will review the internal auditor's engagement terms, and resourcing (including qualifications, skills, experience and funding) and communicate the Audit Committee's expectations to the internal auditor in writing.

#### *Quality and scope*

The Audit Committee will:

- Review the quality and scope of the internal audit plan and work programme;
- Consider the implications of the findings of internal audit to the control framework; and
- Ensure that the scope of the internal auditor's work is co-ordinated with that of external audit.

#### *Monitoring Internal Audit*

- The Audit Committee will monitor and evaluate management's responses to internal audit's findings and recommendations.

*Assessment of internal audit*

- The Audit Committee will ensure that at least once every three years that there is a process undertaken for monitoring and assessing the effectiveness of the internal audit function.

***Meetings with and Access by Internal Audit***

- The Audit Committee will meet with the Outsourced Internal Auditors from time to time without management present; and
- The internal auditors have an unrestricted right to discuss any issues they deem necessary with both the Chairman of the Audit Committee and the Chairman of the Board.

**4. Performance Evaluation**

The Audit Committee will undertake a self-assessment process annually, which assesses the effectiveness of the Audit Committee.