



# SYNLAIT MILK LIMITED AUDIT & RISK COMMITTEE CHARTER

December 2014



This charter (**Charter**) was approved by the Board of Directors (**Board**) of Synlait Milk Limited (**Company**) on 11 July 2013, and subsequently amended in December 2014.

## 1 OBJECTIVE

- 1.1 The Audit and Risk Committee (the **Committee**) is appointed by the Board of the Company to assist the Board in discharging its oversight responsibilities. The Committee will oversee the financial reporting process to ensure the balance, transparency and integrity of published financial statements.
- 1.2 The Committee will also review the following:
  - 1.2.1 the effectiveness of the Company's internal control and risk management system
  - 1.2.2 the effectiveness of the internal audit function
  - 1.2.3 the independent audit process, including recommending the appointment and assessing the performance of the external auditor
  - 1.2.4 the Company's process for monitoring compliance with laws, regulations, internal standards (including the code of business conduct), policies and expectations of key stakeholders, including customers, employees and society as a whole.
- 1.3 In performing its duties, the Committee will maintain effective working relationships with the Board, management, and external and internal auditors. To perform their role effectively, each Committee member must develop and maintain their skills and knowledge, including an understanding of the Committee's responsibilities and of the Company's business, operations and risks.

## 2 AUTHORITY

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

- 2.1.1 perform its activities in accordance with this Charter
- 2.1.2 have unrestricted access to members of management, employees and relevant information
- 2.1.3 discuss any matters with the internal auditor, external auditor, or other external parties (subject to confidentiality considerations)
- 2.1.4 request the attendance of any employee, including the CEO, at Committee meetings as appropriate
- 2.1.5 obtain external legal or other professional advice, as considered necessary to meet its responsibilities, at the Company's expense
- 2.1.6 establish procedures for dealing with concerns of employees regarding accounting, internal controls or auditing matters
- 2.1.7 establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters
- 2.1.8 be directly responsible for the appointment, compensation, retention and oversight of the work of the external auditor

- 2.1.9 approve all audit engagement fees and terms, as well as reviewing policies for the provision of non-audit services by the external auditor (including the framework for pre-approval of any such services).

### 3 COMPOSITION AND TENURE

- 3.1 The Board will nominate the Committee members and the Chair of the Committee.
- 3.2 The Committee will consist of at least 3 members, all of whom will be non-executive Directors, and a majority of whom must be Independent Directors. The Chair of the Committee must be an Independent Director.
- 3.3 The Chief Executive, the Chief Financial Officer, and the other Directors will not be members of the Committee, but may attend meetings as observers at the invitation of the Committee.
- 3.4 Each member of the Committee should have the skills and experience appropriate to the Company's business. At least 1 member must have accounting or related financial expertise.
- 3.5 Membership of the Committee will be reviewed annually by the Board and membership on the Committee will be for rolling 12 month terms, which will be staggered so as not more than 1 member is ever expiring at the same time. Initial terms for members will be set by the Board in its discretion. The Board may add, remove and/or replace any member of the Committee at any time during those terms.
- 3.6 The secretary of the Committee will be appointed by the Board.

### 4 MEETINGS

- 4.1 A quorum of any meeting will consist of a majority of Committee members, meaning at least half of the total number of Committee members must be present at the meeting.
- 4.2 All Board members are entitled to attend meetings. The Committee may invite other people (such as the CEO, CFO, head of internal audit and external audit engagement partner) to attend meetings as the Committee considers necessary.
- 4.3 External and internal auditors should be invited to make presentations to the Committee as appropriate.
- 4.4 Meetings will be held at least 4 times a year, and should correspond with the company's financial reporting cycle. Special meetings may be convened as required. The secretary will convene a meeting on request by the external or internal auditor.
- 4.5 The secretary will circulate the agenda and supporting documents to Committee members within a reasonable time before each meeting. The secretary will also circulate the minutes of meetings to the Board, members of the Committee, and the head of internal audit and the external auditor where appropriate.
- 4.6 As a minimum, the Chair of the Committee (or other Committee member) will attend the Board meeting at which the financial statements are approved.
- 4.7 Members of the Committee should attend every meeting of the Committee.

- 4.8 The Committee should meet regularly with in-house legal counsel. A meeting with external legal counsel should be held if considered necessary.
- 4.9 The Committee will meet with the external auditor at least once a year without management present.
- 4.10 Meetings can be held in person, by telephone, or by video conference.

## 5 ROLE

- 5.1 The Audit and Risk Committee does not remove from the full Board of Directors any of its responsibilities and legal obligations. Rather it is a working party established to assist the Board in the conduct of its responsibilities and will report back to the full Board on all material matters and issues requiring decisions in principle.

## 6 RESPONSIBILITIES

The Committee is directly responsible and accountable to the Board for the exercise of its responsibilities. These include the following:

### 6.1 Risk Management and Internal Control

The Committee's responsibilities are to:

- 6.1.1 evaluate whether management is setting the appropriate "control culture" by communicating the importance of internal control and management of risk
- 6.1.2 ensure that management has appropriate processes for identifying, assessing and responding to risks in a manner that is in accordance with the organisation's risk appetite, and that those processes are operating effectively
- 6.1.3 understand the internal control systems implemented by management for the approval of transactions and the recording and processing of financial data
- 6.1.4 understand the controls and processes implemented by management to ensure that the financial statements derive from the underlying financial systems, comply with relevant standards and requirements, and are subject to appropriate management review
- 6.1.5 evaluate the overall effectiveness of the internal control and risk management frameworks, including the risk of fraud, and consider whether management has implemented recommendations made by internal and external auditors
- 6.1.6 consider how management is held to account for the security of computer systems and applications, and the contingency plans for processing financial information in the event of a system breakdown or to protect against computer fraud or misuse
- 6.1.7 participate in the appointment, promotion or dismissal of the head of risk management
- 6.1.8 meet separately with the head of risk management without management personnel being present
- 6.1.9 ensure a direct reporting line between the head of risk management and the Committee is established.

## 6.2 Financial reporting

The Committee's responsibilities are to:

- 6.2.1 gain an understanding of the current areas of greatest financial risk and how these are being managed
- 6.2.2 review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on financial reports
- 6.2.3 oversee the periodic financial reporting process implemented by management and review the interim financial statements, annual financial statements and preliminary announcements before their release
- 6.2.4 review management's process for ensuring that information contained in analyst briefings and press announcements is consistent with published financial information, and is balanced and transparent, particularly regarding GAAP vs. non GAAP data
- 6.2.5 meet with management and the external auditor to review financial statements, key accounting policies and decisions, related party transactions and the results of the audit
- 6.2.6 ensure that significant adjustments, unadjusted differences, disagreements with management and critical accounting policies and practice are discussed with external auditors
- 6.2.7 review the other sections of the annual report before its release and consider whether the information is understandable and consistent with Committee members' knowledge about the Company and its operations, and lacks bias.

## 6.3 Legislative and NZX compliance, internal policies and industry standards

The Committee's responsibilities are to:

- 6.3.1 review the effectiveness of the system for monitoring the Company's compliance with relevant laws, regulations, NZX Listing Rules, NZX Policies and Guidelines, internal policies and industry standards, and the results of any management investigations or follow-ups (including disciplinary action) or fraudulent acts or non-compliance
- 6.3.2 obtain regular updates from management and the head of compliance about compliance matters that may have a material impact on the Company's financial statements, strategy, operations or reputation
- 6.3.3 be satisfied that all regulatory compliance matters related to the business of the Company have been considered in the preparation of the financial statements
- 6.3.4 review the findings of any examinations by regulators
- 6.3.5 approve and review policies, processes and frameworks for identifying, analysing and addressing complaints (including whistleblowing) and review material complaints and their resolution
- 6.3.6 participate in the appointment, promotion or dismissal of the head of compliance and legal counsel
- 6.3.7 separately meet with head of compliance and legal counsel (without management where required).

## 6.4 External audit

The Committee's responsibilities are to:

- 6.4.1 review the professional qualification of the external auditor (including background and experience of partner and auditing personnel)
- 6.4.2 consider the independence of the external auditor and any potential conflicts of interest
- 6.4.3 review on an annual basis the performance of the external auditor and make recommendations to the Board for the appointment, reappointment or termination of the appointment of the external auditor
- 6.4.4 review the external auditor's proposed audit scope and approach for the current year in light of the Company's circumstances and changes in regulatory and other requirements
- 6.4.5 discuss with the external auditor any audit problems encountered in the normal course of audit work, including any restriction on audit scope or access to information
- 6.4.6 ensure that significant findings and recommendations made by the external auditor and management's proposed response are received, discussed and acted on appropriately
- 6.4.7 discuss with the external auditor the appropriateness of the accounting policies applied in the Company's financial reports and whether they are considered to be aggressive, balanced or conservative
- 6.4.8 meet separately with the external auditor at least once a year to discuss any matters that the Committee or auditor believes should be discussed privately. Ensure the external auditor has access to the Chair of the Committee when required
- 6.4.9 review policies for the provision of non-audit services by the external auditor and, where applicable, the framework for pre-approval of audit and non-audit services
- 6.4.10 ensure the Company has appropriate policies for hiring audit firm personnel for senior positions.

## 6.5 Internal Audit

The Committee's responsibilities are to:

- 6.5.1 review the activities, resources and organisational structure of the internal audit function and ensure there are no unjustified restrictions or limitations
- 6.5.2 participate in the appointment, promotion or dismissal on the internal audit head and discuss with the external auditor the standard of work of internal audit staff
- 6.5.3 review the effectiveness of the internal audit function and ensure it has appropriate standing within the Company
- 6.5.4 meet separately with the head of internal audit to discuss matters that the Committee or internal auditor believe should be discussed privately. Ensure a direct reporting line between the head of internal audit and the Committee is established
- 6.5.5 ensure that significant findings and recommendations made by the internal audits and management's proposed response are received, discussed and appropriately acted on
- 6.5.6 review the proposed internal audit plan for the coming year and ensure that it addresses key areas of risk and that there is appropriate co-ordination with the external auditor.

## 6.6 Tax management

The Committee's responsibilities are to:

- 6.6.1 ensure management has in place and is implementing an effective tax strategy, which consists of a tax policy and tax management plan
- 6.6.2 ensure that the Company pays the correct amount of tax within the framework of prudent tax management
- 6.6.3 ensure the Company has in place and operates systems to ensure it meets all tax compliance responsibilities, and observes all applicable laws and regulations
- 6.6.4 ensure the Company accurately reports tax matters and their impact within the financial statements and internal management reports of the Company
- 6.6.5 ensure the legal structure of the Company and its related entities are optimal and efficient from a tax-perspective
- 6.6.6 confirm any material tax matters, issues, questions or concerns with external advisers or government representatives as required.

## 6.7 Treasury Management

The Committee's responsibilities are to:

- 6.7.1 ensure management has in place and is implementing an effective treasury management policy which effectively minimises and manages treasury risk
- 6.7.2 ensure the Company is operating within its banking covenants, and manages and monitors any exceptions (and the applicable consenting process with the banks)
- 6.7.3 ensure the Company has in place systems to regularly monitor, manage and report on all material treasury aspects to the Committee.

## 6.8 Sales Management

The Committee's responsibilities are to:

- 6.8.1 ensure management has in place and has implemented an effective sales management policy which effectively minimises and manages sales phasing, sales pricing, sales delivery risk against industry sales patterns
- 6.8.2 ensure management has in place systems to regularly monitor, manage and report on all aspects of the above policy to management and the Committee
- 6.8.3 ensure management has measures and expertise in place to regularly review the policy parameters against latest industry information and all material changes are reported back through to the Committee.

## 7 REPORTING

- 7.1 The Committee will regularly update the Board on its operation and activities during the year and make appropriate recommendations. The Committee will ensure the Board is aware of matters that may significantly affect the financial condition or affairs of the business.
- 7.2 The Committee will prepare any reports required by law or regulations, the NZX Listing Rules or requested by the Board, such as a report on the Committee's activities and duties to be included in the section on corporate governance in the annual report.
- 7.3 The Committee will receive an annual report from Management on the performance of the Company in relation to the Treasury Policy and the Sales Policy. The Management Report will recommend any required changes to these Policies or their parameters.

## 8 ADMINISTRATIVE ARRANGEMENTS

### 8.1 Conflicts of interest

- 8.1.1 Once a year, Committee members will provide written declarations to the Chair of the Board stating they do not have any conflicts of interest that would preclude them from being members of the Committee.
- 8.1.2 Committee members must in addition declare any conflicts of interest at the start of each Committee meeting or before discussion of the relevant agenda item or topic. Details of any conflicts of interest should be appropriately recorded in the minutes.
- 8.1.3 Where any member is deemed to have a real, or perceived, conflict of interest at a Committee meeting, it may be appropriate that they are excused from Committee deliberations on the issue where the conflict of interest exists.

### 8.2 Induction

New members will receive relevant information and briefings on their appointment to assist them to meet their Committee responsibilities. An induction plan is set out Appendix 2.

### 8.3 Assessment Arrangements

The Committee will evaluate its own performance and that of individual members and collectively, on a regular basis. The assessment will focus on the achievement of the duties set out in this Charter, and the Committee will report the findings to the Board.

### 8.4 Review of Charter

- 8.4.1 At least once a year, the Committee will review its performance against this Charter, as well as the appropriateness of the Charter itself. This review will include consultation with the Board. An evaluation questionnaire is set out in Appendix 3.
- 8.4.2 Any substantive changes to the Charter will be recommended by the Committee and formally approved by the Board.

[Last Updated December 2014]

# APPENDIX 1- ANNUAL TIMETABLE

## DECEMBER

- Audit Scope and Audit Plan (Deloitte)
- Insurance Renewal Strategy (Marsh)
- Bright YE Audit
- Review of A&R Committee Charter
  - Recommended changes to Charter
  - Compliance with Charter
- A&R Policies Review
- Compliance Report

## FEBRUARY

- Approval of SML 12 months results FYE 31 December- for the purposes of Bright Dairy Audit

## MARCH

- Interim Results
  - Approval of Interim Report & Results
  - Audit Report (Deloitte)
  - Letter of Representation (Deloitte)
  - Auditors Independence Report (Deloitte)
  - Draft Investors Presentation
  - Draft NZX Announcement
- Insurance Renewal Recommendations
- Compliance Report

## JUNE

- Ratification of Insurance Renewal Placements
- Compliance Report

## JULY

- Renewal of Banking Facility Agreement (and any associated amendments)

## SEPTEMBER

- FYE Results
  - Approval of Final Report & Results
  - Audit Report (Deloitte)
  - Letter of Representation (Deloitte)
  - Auditors Independence Report (Deloitte)
  - Draft Investors Presentation
  - Draft NZX Announcement
- Directors "Conflict of Interests" Declaration
- Compliance Report

## APPENDIX 2 – INDUCTION PLAN

The Committee will ensure the implementation of the Board Succession Planning programme (as approved in December 2014).

The Chair of the Committee will ensure that the following information or activities are provided to any new member of the Committee:

Additional Induction Pack information	Additional Induction programme aspects
12 months copies of Committee minutes	Meet with CFO
12 months financial statements – latest Annual Report and Interim Report	Meet with Partner of Audit Firm (currently Deloitte)
Copies of A&R Charter, Securities Trading Policy and Guidelines, Continuous Disclosure Policy, Related Party Transactions Policy, Foreign Exchange Policy, Treasury Management Policy, Internal Transfer Pricing Policy, Sales Management Policy, Risk Management Policy, Delegated Authorities Policy	Meet with head of Risk and Internal Audit
Copy of any internal audit reports / recommendations	Meet with Financial Controller
Risk Management Framework (including all subsidiary documents – Risk Register)	Meet with lead Banking Relationship Manager
Last 6 months Compliance Reports	Meet with Insurance Broker Relationship Manager
Insurance recommendations / current insurances	

## APPENDIX 3 – EVALUATION QUESTIONNAIRE

[questions are based for sections A and B on a scale of 1-5, with 1 being strongly agree, 3 being neutral and 5 being strongly disagree]

### A. How the Committee adds value

1. The Committee calendar ensures all essential tasks are adequately performed
2. The Committee ensures accountability and oversight in relation to the financial statements
3. The Committee ensures that all Audit Reports thoroughly represent an accurate assessment of audit issues
4. The Committee understands company risks and compliance issues
5. The Committee has a good understanding and comprehension of internal control issues and internal audit issues
6. The Committee understands the insurance programme and company requirements
7. Each member of the Committee understands their Director's duties, the A&R Charter and the role they are to perform to add value

### B. How the Committee functions

8. The members of the Committee attend all meetings and are actively engaged in discussions during meetings
9. The Committee prioritises and spends adequate time on important issues during meetings
10. The Committee has adequate preparation time prior to meetings
11. The Committee discusses issues openly and ensures all views are considered during the meeting
12. The Committee has a good relationship with Management, and trusts Management
13. Committee minutes and Committee papers are clear, concise and produced in a timely manner
14. Members of the Committee feel supported, and able to ask Management any specific questions or queries including additional information if believed to be required)
15. The Chair of the Committee facilitates open dialogue and consensus decision making during meetings
16. The Chair provides strong leadership and guidance to the Committee
17. The Committee ensures accountability of Management for all audit and risk matters for the company

### C. Future focus

18. What are 2 things that are working well ?
19. What are 2 things that need to be improved ?
20. If you could make 1 change to the Committee to make it more effective or efficient, what would it be ?
21. Any other comments or suggestions ?