



## AUDIT AND RISK COMMITTEE CHARTER

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Company Secretary

### 1. PURPOSE

- 1.1. The Audit and Risk Committee (Committee) has been established as a committee of the Board of Synlait Milk Limited (“Synlait”) to assist Synlait:
  - 1.1.1. review its material risks, and its management of those risks;
  - 1.1.2. review its financial reporting process, so as to ensure the balance, transparency and integrity of published financial statements;
  - 1.1.3. ensure the effectiveness of Synlait’s internal controls and risk management controls;
  - 1.1.4. ensure the effectiveness of the independent audit process, including by recommending the appointment and assessing the performance of the independent auditor;
  - 1.1.5. ensure the effectiveness of the internal audit process; and
  - 1.1.6. monitor its process for complying with laws, regulations, internal standards (including the code of business conduct), policies and meeting the expectations of key stakeholders, including customers, employees and society as a whole.
- 1.2. In performing its duties, the Committee will report back to the Board on all material matters considered and, where appropriate, make recommendations to the Board. The Committee will maintain effective working relationships with the Board, Management, and independent and internal auditors.

### 2. ROLES AND RESPONSIBILITIES OF THE COMMITTEE

- 2.1. The Committee’s roles and responsibilities include to:
  - 2.1.1. review the integrity of the company’s financial reporting;
  - 2.1.2. ensure procedures for the receipt, retention and treatment of complaints received by Synlait regarding accounting, internal accounting controls, and/or auditing matters are established;
  - 2.1.3. ensure that processes are in place so that the board is properly and regularly informed and updated on the company’s financial matters;
  - 2.1.4. be directly responsible for recommending the appointment and removal of the independent auditor to the board, overseeing the independence of the independent auditor, and monitoring and reviewing the work of the independent and internal auditors; approving all audit engagement fees and terms, and reviewing policies for the provision of non-audit services by the independent auditor (including the framework for pre-approval of any such services).

- 2.2. Management is responsible for maintaining adequate systems of internal control throughout the company. To ensure a coordinated and effective approach consistent with this Charter, the Director, Legal, Risk and Governance has the responsibility of supervising and monitoring the internal control systems and the internal audit function.
- 2.3. The Committee will carry out its responsibilities in accordance with the annual work plan agreed with the Board and its detailed responsibilities as described in Appendix 1. The Committee may also be requested by the Board to take on additional responsibilities.
- 2.4. The Committee shall have the authority of the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

### **3. COMMITTEE COMPOSITION**

- 3.1. The Board will nominate the Committee members, all of whom must be directors and a majority of whom must be independent directors. There will be no executive directors on the Committee.
- 3.2. The minimum number of members of the Committee will be three.
- 3.3. The Board will appoint the Chairperson, who must be an independent director who does not have a long standing association with the independent auditor, whether as current or retired audit manager or senior manager.
- 3.4. Each member of the Committee should have the skills and experience appropriate to Synlait's business with at least one member having accounting or financial expertise.
- 3.5. The Board will review the membership of the Committee annually.

### **4. COMMITTEE MEETINGS**

- 4.1. A majority of Committee members must be present at any meeting to form a quorum. All members of the Committee should try to attend all meetings. All directors are entitled to attend Committee meetings.
- 4.2. Employees may only attend Committee meetings by invitation of the Committee. The Chief Executive Officer, Chief Financial Officer and Director, Legal, Risk and Governance will not be members of the Committee, but are issued a standing invitation of the Committee to attend each meeting, along with the Company Secretary who will act as the secretary of the Committee.
- 4.3. Independent and internal auditors should be invited to attend Committee meetings and make presentations as appropriate. The Committee will meet with the independent auditor at least once a year without management present.
- 4.4. Committee meetings will be held at least four times a year and should correspond with Synlait's financial reporting cycle. Special meetings may be convened as required.



## **5. REPORTING**

- 5.1. 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.
- 5.2. 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.

## **6. REVIEW OF THE CHARTER**

- 6.1. At least once a year, the Committee will review its performance against this Charter, using the questionnaire in Appendix 3 and any other tools the Committee sees fit, as well as the appropriateness of the Charter itself. This review will include consultation with the Board.
- 6.2. Any substantive changes to the Charter will be recommended by the Committee and formally approved by the Board.



## **APPENDIX 1 - DETAILED RESPONSIBILITIES**

### **1. RISK MANAGEMENT AND INTERNAL CONTROL**

- 1.1. The Committee's responsibilities are to:
  - 1.1.1. evaluate whether management is setting the appropriate "control culture" by communicating the importance of internal control and risk management;
  - 1.1.2. ensure that management has appropriate processes for identifying, assessing and responding to risks in a manner that is in accordance with the Synlait's risk appetite, and that those processes are operating effectively;
  - 1.1.3. understand the internal control systems implemented by management for the approval of transactions and the recording and processing of financial data;
  - 1.1.4. 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;
  - 1.1.5. 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 independent auditor;
  - 1.1.6. 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;
  - 1.1.7. participate in the appointment, promotion or dismissal of the head of risk management;
  - 1.1.8. meet separately with the head of risk management without management personnel being present; and
  - 1.1.9. ensure a direct reporting line between the head of risk management and the Committee is established.

### **2. FINANCIAL REPORTING**

- 2.1. The Committee's responsibilities are to:
  - 2.1.1. gain an understanding of the current areas of greatest financial risk and how these are being managed;
  - 2.1.2. review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on financial reports;
  - 2.1.3. oversee the periodic financial reporting process implemented by management and review the interim financial statements, annual financial statements and preliminary announcements before their release;
  - 2.1.4. review the company's financial reports and advise all directors whether they comply with the appropriate laws and regulations;

- 2.15. 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;
- 2.16. meet with management and the independent auditor to review financial statements, key accounting policies and decisions, related party transactions and the results of audits;
- 2.17. ensure that significant adjustments, unadjusted differences, disagreements with management and critical accounting policies and practice are discussed with independent auditor; and
- 2.18. 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 Synlait and its operations and lacks bias.

### **3. LEGISLATIVE AND NZX COMPLIANCE, INTERNAL POLICIES AND INDUSTRY STANDARDS**

- 3.1. The Committee's responsibilities are to:
  - 3.1.1. review the effectiveness of the system for monitoring Synlait'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;
  - 3.1.2. have direct communication with and unrestricted access to the company's accountants;
  - 3.1.3. obtain regular updates from management and the head of compliance about compliance matters that may have a material impact on Synlait's financial statements, strategy, operations or reputation;
  - 3.1.4. be satisfied that all regulatory compliance matters related to the business of Synlait have been considered in the preparation of the financial statements;
  - 3.1.5. review the findings of any examinations by regulators;
  - 3.1.6. approve and review policies, processes and frameworks for identifying, analysing and addressing complaints (including whistleblowing) and review material complaints and their resolution;
  - 3.1.7. participate in the appointment, promotion or dismissal of the head of compliance and general counsel; and
  - 3.1.8. separately meet with head of compliance and general counsel (without other management present where required).



#### 4. INDEPENDENT AUDIT

- 4.1. The Committee's responsibilities are to:
- 4.1.1. review the professional qualification of the independent auditor (including background and experience of partner and auditing personnel);
  - 4.1.2. consider the independence of the independent auditor and any potential conflicts of interest;
  - 4.1.3. have direct communication with and unrestricted access to the independent auditor;
  - 4.1.4. change the key audit partner at least every five years;
  - 4.1.5. review on an annual basis the performance of the independent auditor and make recommendations to the Board for the appointment, reappointment or termination of the appointment of the independent auditor;
  - 4.1.6. review the independent auditor's proposed audit scope and approach for the current year in light of Synlait's circumstances and changes in regulatory and other requirements;
  - 4.1.7. discuss with the independent auditor any audit problems encountered in the normal course of audit work, including any restriction on audit scope or access to information;
  - 4.1.8. ensure that significant findings and recommendations made by the independent auditor and management's proposed response are received, discussed and acted on appropriately;
  - 4.1.9. discuss with the independent auditor the appropriateness of the accounting policies applied in Synlait's financial reports and whether they are considered to be aggressive, balanced or conservative;
  - 4.1.10. meet separately with the independent auditor at least once a year to discuss any matters that the Committee or auditor believes should be discussed privately. Ensure the independent auditor has access to the Chair of the Committee when required;
  - 4.1.11. review policies for the provision of non-audit services by the independent auditor and, where applicable, the framework for pre-approval of audit and non-audit services; and
  - 4.1.12. ensure Synlait has appropriate policies for hiring audit firm personnel for senior positions.

## 5. INTERNAL AUDIT

- 5.1. The Committee's responsibilities are to:
- 5.1.1. review the activities, resources and organisational structure of the internal audit function and ensure there are no unjustified restrictions or limitations;
  - 5.1.2. have direct communication with and unrestricted access to the internal auditor;
  - 5.1.3. participate in the appointment, promotion or dismissal on the internal audit head and discuss with the independent auditor the standard of work of internal audit staff;
  - 5.1.4. review the effectiveness of the internal audit function and ensure it has appropriate standing within Synlait;
  - 5.1.5. 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;
  - 5.1.6. ensure that significant findings and recommendations made by the internal audits and management's proposed response are received, discussed and appropriately acted on;
  - 5.1.7. 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 independent auditor; and
  - 5.1.8. review the scope of internal audits before commencement.

## 6. INSURANCE

- 6.1. The Committee's responsibilities are to:
- 6.1.1. review and approve the appointment of Synlait's insurance broker every three years;
  - 6.1.2. review the annual insurance renewal strategy to be executed by the insurance broker in conjunction with management;
  - 6.1.3. review and make recommendations to the Board on the placement of annual insurance policies; and
  - 6.1.4. ensure material insurance matters are being appropriately managed and communicated to the Board.



## **7. TAX MANAGEMENT**

- 7.1. The Committee's responsibilities are to:
  - 7.1.1. ensure management has in place and is implementing an effective tax strategy, which consists of a tax policy and tax management plan;
  - 7.1.2. ensure that Synlait pays the correct amount of tax within the framework of prudent tax management;
  - 7.1.3. ensure Synlait has in place and operates systems to ensure it meets all tax compliance responsibilities, and observes all applicable laws and regulations;
  - 7.1.4. ensure Synlait accurately reports tax matters and their impact within the financial statements and internal management reports of Synlait;
  - 7.1.5. ensure the legal structure of Synlait and its related entities are optimal and efficient from a tax-perspective; and
  - 7.1.6. confirm any material tax matters, issues, questions or concerns with external advisers or government representatives as required.

## **8. TREASURY MANAGEMENT**

- 8.1. The Committee's responsibilities are to:
  - 8.1.1. ensure management has in place and is implementing an effective treasury management policy which effectively minimises and manages treasury risk;
  - 8.1.2. ensure Synlait is operating within its banking covenants, and manages and monitors any exceptions (and the applicable consenting process with the banks); and
  - 8.1.3. ensure Synlait has in place systems to regularly monitor, manage and report on all material treasury aspects to the Committee.

## **9. SALES MANAGEMENT**

- 9.1. The Committee's responsibilities are to:
  - 9.1.1. ensure management has in place and has implemented an effective sales policy which effectively minimises and manages sales phasing, sales pricing, sales delivery risk against industry sales patterns;
  - 9.1.2. ensure management has in place systems to regularly monitor, manage and report on all aspects of the above policy to management and the Committee; and
  - 9.1.3. 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.





## 10. OTHER

10.1. The Committee's responsibilities are to:

10.1.1. Implement the Induction Plan described in Appendix 2.

## APPENDIX 2 – INDUCTION PLAN

The Committee will ensure the implementation of the Board Succession Planning programme.

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

Information to be provided	Additional Induction programme aspects (as appropriate)
12 months copies of Committee minutes, including Compliance Reports.	Meet with Director, Legal, Risk and Governance
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 Policy, Risk Management Policy, Delegated Authorities Policy	Meet with CFO
Copy of any internal audit reports / recommendations	Meet with Senior Internal Auditor
Risk Management Framework (including all subsidiary documents – Risk Register)	Meet with lead Banking Relationship Manager
Insurance recommendations / current insurances	Meet with Insurance Broker Relationship Manager



## 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]*

### 1. HOW THE COMMITTEE ADDS VALUE

- 1.1. The Committee calendar ensures all essential tasks are adequately performed
- 1.2. The Committee ensures accountability and oversight in relation to the financial statements
- 1.3. The Committee ensures that all Audit Reports thoroughly represent an accurate assessment of audit issues
- 1.4. The Committee understands company risks and compliance issues
- 1.5. The Committee has a good understanding and comprehension of internal control issues and internal audit issues
- 1.6. The Committee understands the insurance programme and company requirements
- 1.7. Each member of the Committee understands their director's duties, the A&R Charter and the role they are to perform to add value

### 2. HOW THE COMMITTEE FUNCTIONS

- 2.1. The members of the Committee attend all meetings and are actively engaged in discussions during meetings
- 2.2. The Committee prioritises and spends adequate time on important issues during meetings
- 2.3. The Committee has adequate preparation time prior to meetings
- 2.4. The Committee discusses issues openly and ensures all views are considered during the meeting
- 2.5. The Committee has a good relationship with Management, and trusts Management
- 2.6. Committee minutes and Committee papers are clear, concise and produced in a timely manner
- 2.7. Members of the Committee feel supported, and able to ask Management any specific questions or queries including additional information if believed to be required)
- 2.8. The Chair of the Committee facilitates open dialogue and consensus decision making during meetings
- 2.9. The Chair provides strong leadership and guidance to the Committee
- 2.10. The Committee ensures accountability of Management for all audit and risk matters for Synlait

### 3. FUTURE FOCUS

- 3.1. What are two things that are working well?
- 3.2. What are two things that need to be improved?



- 3.3. If you could make one change to the Committee to make it more effective or efficient, what would it be?
- 3.4. Any other comments or suggestions?