

# Internal Audit Charter

NEXTDC Limited and its subsidiaries (ACN 143 582 521)



N E X T D C

## Introduction

NEXTDC's Internal Audit function has been established as a key component of the Company's corporate governance framework. This Charter provides the framework for the conduct of the Internal Audit function in NEXTDC. This Charter has been developed to address the roles, responsibilities, authorisation, activities and reporting relationships of the Internal Audit function and is guided by the International Standards for the Professional Practice of Internal Auditing (the "Standards"). This Charter should be read in conjunction with NEXTDC's Audit and Risk Management Committee Charter.

## Purpose and Mission

The primary purpose of NEXTDC's Internal Audit function is to provide an independent, objective assurance and consulting activity designed to add value and improve NEXTDC's operations as well as identifying whether the controls framework is adequate, effective and efficient in managing its risks.

The mission of Internal Audit is to enhance and protect our organisational value by providing risk-based and objective assurance, advice and insight. Internal Audit will assist NEXTDC to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

## Principles

Internal Audit will operate in alignment with best practice and a series of Core Principles suggested by the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). This includes ensuring that the Internal Auditor:

- 1) Demonstrates integrity;
- 2) Demonstrates competence and due professional care;
- 3) Is objective and free from undue influence (independent);
- 4) Aligns with the strategies, objectives, and risks of the organisation;
- 5) Is appropriately positioned and adequately resourced;
- 6) Demonstrates quality and continuous improvement;
- 7) Communicates effectively;
- 8) Provides risk-based assurance;
- 9) Is insightful, proactive, and future-focused; and
- 10) Promotes organisational improvement.

## Authority and Accountability

Internal Audit is accountable to the Board through the Chairman of the Audit and Risk Management Committee. Administratively, Internal Audit reports to the Chief Financial Officer for financial internal audits and Chief Legal Officer for operational internal audits.

Additionally, the Internal Audit function:

- Shall have no executive or managerial powers, authorities, functions or duties except those relating to the management of the Internal Audit function;
- Has, with strict accountability for confidentiality and safeguarding records and information, full, free, and unrestricted access to any and all of NEXTDC's records, physical properties and personnel pertinent to carrying out any engagement. All employees are expected to assist the Internal Audit activity in fulfilling its roles and responsibilities;
- Has unrestricted access to, and communicates and interacts directly with the ARMC, and has sufficient information to enable it to perform its functions;
- May meet with the ARMC Chairman without management;
- Is subject to a protocol to manage conflicts of interest for internal auditors; and
- Shall ensure all records, documentation and information accessed while undertaking Internal Audit activities are to be used solely for the conduct of these activities and maintained in accordance with NEXTDC's Document Management Policy.

## Independence and Objectivity

Internal Audit will ensure that it remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. NEXTDC's management holds the primary responsibility for establishing, implementing, maintaining and monitoring systems of internal control. Internal Audit will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgement on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment.

Where Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing, protocols will be established to limit impairments to independence and/or objectivity.

Internal Audit will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties;

- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined;
- Make balanced assessments of all available and relevant facts and circumstances; and
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments;
- Confirm to the ARMC, at least annually, its organisational independence;
- Disclose to the ARMC, any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results; and
- Internal Audit will ensure good communication is maintained between the Internal Audit staff and NEXTDC management, which will be based on a foundation of strong relationships. This will ensure in the event a conflict may arise, Internal Audit will endeavour to the extent possible to resolve any differing of opinion by working in a collaborative manner with management. If a conflict appears to be a material disagreement, this will be escalated to the Chair to ensure the internal audit function remains objective and independent.

## Responsibility

Internal Audit has the responsibility to:

- Prepare and maintain the Internal Audit Charter for annual review by the ARMC and make it available to all NEXTDC management and staff;
- Develop an annual audit plan that is flexible and uses appropriate risk-based methodology, including any risks and control concerns identified by management, and submit the plan to the ARMC, as well as a three-year rolling Strategic Internal Audit Plan (SIAP) for review and approval;
- Coordinate implementation of the approved annual audit plan including, as appropriate, any special tasks or projects requested by management or the ARMC;
- Recommend any changes to the annual audit plan to the ARMC on an as needed basis;
- Report annually to the ARMC against the agreed audit plan, including summarising the results of the prior year's internal audit activity, providing an opinion on the adequacy and effectiveness of the control environment and highlighting any significant weaknesses, themes and root causes;
- Issue regular reports to the ARMC and management summarising results of recent audit activities, including timetable for expected completion or an explanation if corrective action will not be taken by management;
- Communicate to senior management and the ARMC the impact of resource limitations on the Internal Audit plan;

- On being made aware of any significant changes to operations or control processes, a risk impact evaluation will be undertaken to consider any potential amendments to the organisations risk profile and annual audit plan for communication to the ARMC;
- Ensure that business processes or units likely to be vulnerable to fraud, corruption or other losses are included in the audit plan and at what cadence to minimise the risk of such incidents
- Ensure each engagement of the Internal Audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and agreed recommendations and timeframes for implementation, to appropriate parties;
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the ARMC on the status of corrective actions;
- Ensure the Internal Audit activity collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Internal Audit Charter;
- Keep the ARMC informed of emerging trends and successful practices in internal auditing, risk and financial management;
- Establish an internal quality assurance and improvement program to assure the operation of Internal Audit activities;
- Ensure adherence to NEXTDC's relevant policies and procedures designed to guide the Internal Audit unless such policies and procedures conflict with the Internal Audit Charter. Any such conflicts will be resolved or otherwise communicated to senior management and the ARMC;
- If requested, provide consulting services beyond internal auditing's assurance services, such as facilitation, advice on process design, training and advisory services, to assist management in meetings its objectives;
- Assist in the investigation of significant suspected fraudulent activities within NEXTDC and notify the ARMC of the results and management, at its direction; and
- Ensure conformance of Internal Audit with the Standards, with the following qualifications:
  - If Internal Audit is prohibited by law or regulation from conformance with certain parts of the Standards, Internal Audit will make appropriate disclosures regarding same, and will ensure conformance with all other parts of the Standards.
  - If the Standards are used in conjunction with requirements issued by the Australian Auditing and Assurance Standards Board, the Internal Audit Activity will ensure that the Internal Audit Activity conforms with the Standards, even if the Internal Audit Activity also conforms with the more restrictive requirements of the Australian Auditing and Assurance Standards Board.

## Scope of Internal Audit Activities

The scope of Internal Audit encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assurance to the ARMC, management, and outside parties on the adequacy and effectiveness of NEXTDC's governance, risk management and control framework.

At the general level, this includes:

- Evaluating risk exposure relating to achievement of NEXTDC's strategic and operational objectives;
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information;
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on NEXTDC;
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Evaluating the effectiveness and efficiency with which resources are deployed;
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
- Monitoring and evaluating governance processes;
- Monitoring and evaluating the effectiveness of NEXTDC's risk management processes;
- Evaluating the quality of performance of external auditors and the degree of coordination with Internal Audit;
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board or the ARMC; and
- Evaluating specific operations at the request of the Board, the ARMC or management, as appropriate.

## Professionalism

Internal Audit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' mandatory guidance including the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. This mandatory guidance constitutes principles of the fundamental requirements of the professional practice of internal auditing and for evaluating the effectiveness of the Internal Audit activity's performance. Internal Audit will report periodically to senior management and the ARMC regarding Internal Audit's conformance to the Code of Ethics and the Standards.

In the conduct of internal audit work, Internal Audit staff will:

- Comply with relevant professional standards of conduct;

- Possess the knowledge, skills and technical proficiency relevant to the performance of their duties;
- Be skilled in dealing with people and communicating audit, risk management and related issues effectively;
- Maintain their technical competence through a program of professional development; and
- Exercise due professional care in performing their duties.

## Reporting and Monitoring

Internal Audit will:

- Report the results of audits to relevant NEXTDC management at the conclusion of each audit engagement and obtain management's response;
- Report on the audits completed to the ARMC, status of implementation of recommendations as well as the progress in implementing the annual audit work plan; and
- Follow-up on engagement findings, implementation of any corrective actions arising from an audit or the ARMC's directions or recommendations. All significant findings will remain in an open issues file until cleared.

Internal Audit may perform other assurance activities including advisory and coordinating activities with external service providers under the direction of ARMC. The nature and scope of such activities will be agreed with management to ensure there is no conflict of interest or management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control framework may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

## External Service Providers

External service providers may be engaged to support the Internal Audit function in the delivery of the annual Internal Audit plan as required. Where an outsourced Internal Audit Provider is utilised, the service will be governed by an Engagement Letter that requires the Provider to comply with all relevant NEXTDC policies and agreed standards of Internal Audit practice and adherence to reporting lines directed by the ARMC.

All internal and external audit activities shall be coordinated to help ensure the adequacy of overall audit coverage and to minimise duplication of effort. When requested, Internal Audit shall provide the external auditor with access to audit plans, working papers and reports.

## Quality Assurance

Internal Audit will maintain a quality assurance and improvement program that covers all aspects of Internal Audit. The program will include an evaluation of Internal Audit's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of Internal Audit and identify opportunities for improvement.

## Review of the Internal Audit Charter

This charter will be reviewed at least annually to ensure appropriate organisational structure, authority, access and reporting arrangements are in place. Any substantive changes will be formally approved by the ARMC.