

# Audit & Risk Management Committee Charter

NEXTDC Limited and its subsidiaries (ACN 143 582 521)



N E X T D C

## 1. Purpose of Charter

The Audit and Risk Management Committee Charter (Charter) governs the operations of the Audit and Risk Management Committee (ARMC). It sets out the ARMC's role and responsibilities, composition, structure and membership requirements. The ARMC 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, internal control structure, risk management systems (financial and non-financial) and the internal and external audit process.

The ARMC shall review and reassess the Charter at least annually and, on each occasion, shall obtain the approval of the Board to the form of the Charter.

## 2. Membership

The members of the ARMC shall be members of, and appointed by, the Board. It shall be of sufficient size, independence and technical expertise to discharge its mandate effectively. The ARMC shall consist of:

- a) at least three members;
- b) only non-executive Directors;
- c) a majority of independent Directors; and
- d) an independent chairman, who shall be nominated by the Board from time to time but who shall not be the chairman of the Board (Chairman).

All ARMC members shall be financially literate (i.e. are able to read and understand financial statements). At least one member shall have accounting and/or related financial management expertise (i.e. is a qualified accountant or other financial professional with experience of financial and accounting matters) and some members shall have an understanding of the industries in which the Company operates.

Members will be appointed for a period of no more than three years, with ARMC members generally being eligible for re-appointment for so long as they remain non-executive directors of the Board.

The terms of a member's appointment are:

- a) A member may resign upon reasonable notice in writing to the ARMC chairman;
- b) A member may from time to time be immediately removed by notice in writing under the hand of the ARMC chairman; and
- c) Ceasing to be a non-executive director of the Board is deemed to be automatic termination of appointment as a member of the ARMC.

## 3. Company Secretary

The Company Secretary will act as the Secretary of the ARMC and will attend all ARMC meetings. The Company Secretary, in conjunction with the chairman of the ARMC, must prepare an agenda to be circulated to each ARMC member at least two full working days prior to each meeting of the ARMC.

The Company Secretary will distribute a meeting timetable for each forthcoming calendar year.

## 4. Meetings

- a) The ARMC shall meet often enough to undertake its role effectively.
- b) The purpose of ARMC meetings shall be to:
  - i. review and approve internal audit and external audit plans;

- ii. update the internal and external audit plans;
  - iii. review and approve financial reports; and
  - iv. review the effectiveness of the compliance function in general.
- c) The ARMC shall meet in private session at least annually to assess management's effectiveness.
  - d) A quorum for any meeting will be two members.
  - e) Special meetings may be convened as required. The ARMC chairman will call a meeting of the ARMC if requested to do so by any member of the ARMC, by the external auditors or by the chairman of the Board.
  - f) The ARMC may invite such other persons (eg. staff, CEO, CFO, external parties) to its meetings, as it deems necessary (whether on a permanent or ad hoc basis).
  - g) The proceedings of all meetings will be minuted and these will be included in the papers for the next Board meeting after each ARMC meeting.

## 5. Authority

The Board authorises the ARMC, 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 ARMC) or external parties;
- c) obtain outside accounting, legal, compliance, risk management or other professional advice as it determines necessary to carry out its duties; and
- d) ensure company officers' attendance at meetings as appropriate.

## 6. Duties and Responsibilities

### 6.1 Understanding the Company's business

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

### 6.2 Financial Reporting

- a) The ARMC'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 ARMC shall focus on:
  - i. compliance with accounting standards (including an assessment of the appropriateness of Management's selection of accounting policies and disclosures);
  - ii. significant or unusual transactions and accounting estimates;
  - iii. significant changes in accounting policies and practices;
  - iv. major judgemental areas;
  - v. significant audit adjustments;
  - vi. financial matters relevant to half-yearly reporting in a timely manner; and
  - vii. reviewing other financial information distributed externally as required.
- b) The Committee will review the Declarations signed by the Chief Executive Officer and Chief Financial Officer required by section 295A and section 303 of the Corporations Act and Recommendation 4.2 of the ASX Principles and recommend their suitability to the Board. These Declarations shall include that the opinion of the Chief Executive Officer and the Chief Financial Officer has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

### 6.3 Reporting to the Board

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

### 6.4 Assessment of accounting, financial and internal controls

- a) Periodically, the ARMC shall meet separately with management, the internal auditors, and the external auditors to discuss:
  - the adequacy and effectiveness of the accounting and financial controls, including the Company's policies and procedures to assess, monitor, and manage business risk, and legal and ethical compliance programs; and
  - issues and concerns warranting ARMC attention, including but not limited to their assessments of the effectiveness of internal controls and the process for improvement.
- b) The ARMC shall provide sufficient opportunity for the internal and external auditors to meet privately with the members of the ARMC. The ARMC shall review with the external auditor any audit problems or difficulties and management's response.
- c) The ARMC shall 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.

### 6.5 Appointment of external auditors and scope of external audit

The ARMC shall 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.

The ARMC, based on Management's recommendation shall discuss with the external auditors the overall scope of the external audit, including identified risk areas and any additional agreed-upon procedures.

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

- a) The ARMC shall pre-approve all audit and non-audit services provided by the external auditors and shall 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 ARMC may delegate pre-approval authority to a member of the ARMC. The decisions of any ARMC member to whom pre-approval authority is delegated must be presented to the full ARMC at its next scheduled meeting.

### 6.7 Assessment of the external audit

- a) The ARMC, at least on an annual basis, shall obtain and review a report by the external auditors describing (or meet, discuss and document the following with them):
  - The audit firm's internal quality control procedures.
  - 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.
- All relationships between the external auditor and the Company (to assess the auditor's independence).
- b) The ARMC shall 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 ARMC shall review and assess the independence of the external auditor, including but not limited to 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.
  - d) The ARMC shall draft an annual statement for inclusion in the Company's annual report as to whether the ARMC is satisfied that the provision of non-audit services is compatible with the external auditor's independence.

## 6.8 Assessment of the internal audit

The ARMC shall 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.

The ARMC shall discuss the scope of the internal audit with the internal auditor, including the internal audit plan, work program and quality control procedures.

NEXTDC's Audit Procedure requires all 'Reportable Incidents' to be shared with the ARMC. 'Reportable Incidents' are non-compliance to legislation or key ISO requirement, or significant deficiency in key control, or an uncontrolled risk that could have a catastrophic impact to the company.

## 6.9 Compliance with laws and regulations

- a) The ARMC shall review the risk management policies developed and implemented by management, considering all legal obligations and the reasonable expectations of stakeholders.
- b) The ARMC shall gain an understanding of the current areas of greatest compliance risk (financial and non-financial) and review these areas on a regular basis.
- c) The Board is ultimately responsible for deciding the nature and extent of the risks it is prepared to take to meet its objectives. It is the role of the Board to set the risk appetite for the Company.
- d) The ARMC shall 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. It shall regularly review existing compliance systems and consider any deficiencies in compliance risk measures.
- e) The ARMC shall 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.
- f) The ARMC shall 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.
- g) The ARMC shall be satisfied that all regulatory compliance matters have been considered in preparing the Company's official documents.
- h) The ARMC shall review the findings of any examinations by regulatory agencies and oversee all liaison activities with regulators.
- i) The ARMC shall review and make recommendations on the Company's insurance program, considering the Company's business and the insurable risks associated with the business.
- j) The ARMC also serves as an escalation point under NEXTDC's Whistleblowers Policy.

## 6.10 Releases and Complaints

- a) The ARMC shall review and discuss media releases, ASX announcements and any other information provided to analysts, where appropriate.
- b) The ARMC shall review all representation letters signed by management to ensure that the information provided is complete and appropriate and recommend their suitability to the Board.
- c) The ARMC shall 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.
- d) The ARMC shall review corporate legal reports of evidence of a material violation of the Corporations Act, the ASX Listing Rules or breaches of fiduciary duties.

## 6.11 Risk Reporting

Risk reporting to the ARMC should take place at all planned quarterly, half yearly and annual meetings. Reporting should consist of the following static (a,b) and fluid (c, d) agenda items:

- a) Undertake deep dives across two risks per meeting; selection criteria may be driven by internal and external events and should incorporate an update or presentation by risk owner
- b) 'Risk on a Page' dashboard report at each ARMC meetings
- c) Management should consult with the ARMC and Board to develop the remaining agenda by understanding the nature and types of information they wish to cover and discuss periodically
- d) Discuss and evaluate emerging risks at least annually

## 6.12 ARMC performance

The ARMC shall perform an evaluation of its performance at least annually to determine whether it is functioning effectively by reference to current best practices.

The Board will evaluate the performance of the ARMC as appropriate and is responsible for reviewing the Company's policies on risk oversight and management and shall satisfy itself that management has developed and implemented a sound system of risk management and internal control.

# 7. Reliance on Management and External Professionals

The members of the ARMC are entitled to rely on the Company's management on matters within their responsibility and on external professionals on matters within their area of expertise. Committee members may assume the accuracy of information provided by such persons, so long as the members are not aware of any reasonable grounds upon which such reliance or assumption may not be appropriate.

Management is responsible for:

- a) the preparation, presentation and integrity of the Company's financial statements;
- b) implementing, managing and maintaining appropriate enterprise-wide accounting, financial reporting and risk management systems, policies and procedures, reporting protocols and internal controls that are designed to ensure compliance with applicable accounting standards, laws and regulations, and to ensure that the Company operates within the risk appetite set by the Board; and
- c) the preparation, presentation and integrity of the information provided to the committee.

The external auditor is responsible for planning and carrying out each audit and review in accordance with applicable auditing standards. The external auditor is accountable to shareholders through the committee.