

### **1. INTRODUCTION**

- 1.1 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 hence will report back to the full board on all material matters and issues requiring decisions in principle. Against this background the roles of the audit and risk committee as set out in this charter will apply.
- 1.2 The audit and risk committee is not responsible in any way for the implementation and operation of adequate internal control and audit systems throughout the group. This is the responsibility of management. The role of the audit and risk committee is to ensure that appropriate internal control and risk assessment systems are in place, and that they operate appropriately.
- 1.3 Management will be responsible for implementation of systems of corporate governance in all wholly and partly owned subsidiaries throughout the group. Management should also encourage adequate systems in associate companies where the group exercises significant influence. To ensure a coordinated and effective approach consistent with this charter, the chief financial officer and general manager finance and reporting have the responsibility of supervising and monitoring the internal control systems and the chief financial officer has the responsibility of supervising and monitoring any internal audit and risk assessment functions that may be in place.

### **2. CONSTITUTION AND MEMBERSHIP**

- 2.1 The audit and risk committee shall be appointed by the board of directors from amongst those non-executive directors who qualify as independent directors as specified in the director independence policy. It shall consist of not less than three members, with at least one member considered to have a high standard of financial expertise.
- 2.2 The chairman shall be appointed by the board and the chief financial officer shall act as the secretary of the committee.
- 2.3 A quorum shall be two members.
- 2.4 The committee may have in attendance such members of management and such other persons as it may deem necessary to provide appropriate information or explanations.
- 2.5 The external auditors will attend meetings as requested by the chairman.
- 2.6 All directors will be entitled to attend all meetings of the audit and risk committee.
- 2.7 Executive directors should not, however, have the right to attend those meetings which the audit and risk committee chooses to hold without any company executives present.

### **3. AUTHORITY**

- 3.1 The committee is authorised by the board to investigate any activity covered by its roles. It is authorised to seek any information it requires from any employee and all employees will be directed to cooperate with any request made by the committee.
- 3.2 Any employee will have access to the chairman at any time.
- 3.3 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.

#### **4. PRIMARY ROLE**

- 4.1 The audit and risk committee shall be the board's agent for monitoring the systems in place throughout the group relevant to its role as set out in this charter. The role of the audit and risk committee shall be restricted to those matters set out in this charter and shall be concerned as to the effectiveness of the accounting and internal control systems so that they:
- (a) provide for the maintenance of books, records and accounts that accurately and fairly reflect the transactions and dispositions of the group's assets and are supported by sound and adequate systems of internal accounting control;
  - (b) protect the assets of the group from undue risk arising either from a failure to adhere to prescribed policies and procedures, including fraud or malpractice;
  - (c) ensure that timely and accurate management information is available;
  - (d) immediately identify significant transactions outside the group's normal course of business;
  - (e) provide the policies and procedures required to monitor executive management related expenditures;
  - (f) review the policies and procedures in force to ensure they ensure compliance with the legal requirements, in respect of accounting policies, financial reporting, internal control, external audit and environmental compliance in all jurisdictions in which the group operates.
- 4.2 Management are responsible for effecting adequate systems of internal control throughout the group. This will be achieved by management utilising internal audit where appropriate. The chief financial officer will monitor any business unit internal auditors. To encourage a coordinated approach the chief financial officer may delegate such monitoring to the general manager audit and risk.
- 4.3 While the committee is responsible for internal control monitoring it may delegate the activities required to review internal control effectiveness to the external auditors. The reports submitted by the external auditors shall, as required, deal with all matters relating to corporate governance set out in paragraph 4.1.
- 4.4 The auditors will remain responsible to shareholders for the exercise of their statutory responsibilities to determine that:
- (a) the financial statements of the group comply with New Zealand generally accepted accounting practice and present a true and fair view of the results of and the state of the group's affairs;
  - (b) proper accounting records have been kept by the company; and,
  - (c) the group financial statements contain the information required by the Companies Act 1993, or other applicable statutes or regulations.
- 4.5 Where an internal audit function is instituted, the internal auditors will remain part of the management process. Their tasks and responsibilities will, where necessary, be identified in conjunction with the external auditors. A primary function of the committee will be to encourage the independence of any such internal audit function.

## **5. SECONDARY ROLE**

- 5.1 Management are responsible for the identification, evaluation, treatment and on-going monitoring of risks to the business. The audit and risk committee will provide oversight to the risk process undertaken by management and in particular:
- (a) review the company's risk profile to ensure that material risks to the company's business are dealt with properly and reported at least annually to the Board.
  - (b) ensure that there is a regular review and update of the company's risk profile.
  - (c) ensure that the material business risks have been dealt with in a timely manner to mitigate exposures to the company.
- 5.2 The committee shall form an opinion as to whether or not the half yearly and annual group financial statements including divisional financial information fairly state the results for the period and the financial position of the group at the time of their issue. The same procedures will be applied to financial statements published by any sub-groups of the Fletcher Building group.
- 5.3 The ability to form this opinion will flow from the primary role of the committee in the corporate governance area. It will be based on the committee's judgement as to the adequacy of the work completed by the internal and external auditors in reviewing the accounting records and systems, testing management's compliance with internal control systems and reporting to the committee on their review. The committee will in forming its opinion consider:
- (a) any changes in accounting policies and practices;
  - (b) major judgmental areas;
  - (c) significant adjustments resulting from the audit;
  - (d) all significant variances between the figures for the current year and the previous year;
  - (e) any legal matters that could have a significant impact;
  - (f) the extent to which there are items in dispute with the tax authorities and the adequacy of tax provisions;
  - (g) the going concern assumption.
- 5.4 Having satisfied itself that the figures in the financial statements may be relied upon the committee will then consider whether they:
- (a) comply with the group's accounting policies;
  - (b) comply with generally accepted accounting standards and practice; and
  - (c) fairly state the results and financial condition of the group.
- 5.5 The financial statements must comply with stock exchange requirements, securities regulations and any other like obligations.
- 5.6 Completion of the review of the financial statements will enable the committee to make recommendations orally to the board on the adoption or otherwise of the financial statements before external release.

5.7 A task of the committee will be to ensure consistency between the annual report and the annual financial statements.

## **6. SPECIFIC RESPONSIBILITIES**

6.1 The committee shall be directly responsible for recommending to the board the appointment, compensation and oversight of the company's auditor, including resolution of any disputes between the auditor and management.

6.2 Reaching agreement with the external auditors on how the nature and scope of the audit will be determined to meet the requirements of the audit and risk committee. Emphasis will be placed on areas where the committee, management, or the auditors believe special action is required. As this will settle the terms of the audit engagement for the year this must be completed at the commencement of each financial year by way of an engagement letter. A copy of this engagement letter will then be provided to the auditors and management who will negotiate the cost of the audit together with any additional scope.

6.3 Determining in advance of the audit commencing the nature and extent of any non-audit services that may be performed by the auditor, and approving such other services as provided by the audit independence policy. Where such approval is required of the committee, the chairman of the committee is delegated to provide such approval, provided that approval is subsequently reported to the committee at its next meeting.

6.4 Monitoring the internal audit function's effectiveness against the internal audit plan; reviewing the results of any specific investigations or reviews requested; and assessing the overall performance of the internal audit function. In making such a determination of effectiveness of the function the committee may request regular reports from the external auditors addressing:

(a) the adequacy of any internal audit function specifically covering the extent to which activities including monitoring the corporate governance aspects of paragraph 4.1 of the charter, organisational structure, independence and technical proficiency;

(b) the extent to which internal audit has been used in the interim and year-end financial reporting process including the degree of coordination with the external auditors;

(c) any other matter considered relevant to the assessment of the effectiveness of the internal audit function.

6.5 Monitoring the overall effectiveness of internal control systems by receipt of an annual report by the chairman from the external auditors addressing the results of the internal control reviews undertaken by the external auditors on behalf of the committee.

6.6 Obtaining reports from the chief financial officer on:

(a) any recommended changes in accounting policies;

(b) any changes in accounting practices which are relevant to the group.

6.7 Arranging meetings with the external auditor on matters arising from their management reports and other reports received and on the external financial statements. This will normally take the form of a joint meeting with the chief financial officer, the external auditors and the committee.

6.8 Meeting at least annually with external auditors without any group executives present. The external auditors will at all times have unrestricted access to the chairman.

- 6.9 Reporting to the board from time to time on the performance of the external auditors and on any problems experienced, including differences of opinion with management, and make recommendations to the board as required on their remuneration and on any additional responsibilities allocated. Where any change in the firm is proposed, recommendations on the method of appointment and the selection of the replacement firm will be the responsibility of the committee.

## **7. REPORTING PROCEDURES**

- 7.1 The committee chairman, in consultation with the secretary, will prepare an agenda for each committee meeting. Management will prepare audit and risk committee papers and will circulate these and the agenda to all directors prior to each meeting. The chief financial officer shall keep minutes of the committee's meetings which shall be circulated to all directors and to the external auditors. Meetings of the committee shall be as required.
- 7.2 The committee shall maintain direct lines of communication with group management, the chief financial officer, the general manager finance and reporting, the general manager audit and risk and the external auditors.
- 7.3 The group is complex and operates in many jurisdiction with differing accounting practices. Management will have the responsibility of keeping the committee up to date with trends and proposed changes in international accounting practice.
- 7.4 The chief financial officer will be responsible for drawing to the committee's and the board's immediate attention any material adverse matters which relate to the financial position of the group, any material breakdowns in internal controls and any material events of fraud or malpractice once evidence of such events is available.
- 7.5 Any communication from the external auditors addressed to the audit and risk committee will be circulated to committee members immediately.
- 7.6 All directors shall receive a copy of any papers presented to the committee, and a copy of the minutes of meetings.
- 7.7 The chairman of the committee shall report back to the board at the next appropriate meeting on any substantive matters raised and addressed by the committee.