

25 AUGUST 2017

Audit and Risk Management Committee Charter



Introduction

1. This Board Committee Charter ("**Charter**") governs the standing Audit and Risk Management Committee ("**ARMC**") of Chorus Limited ("**Chorus**"). The matters in this Charter apply in addition to the matters set out in Schedule 1 to the Board Charter.

Purpose

2. The ARMC assists the Board in ensuring oversight of all matters relating to risk management and the financial management, accounting, audit and reporting of Chorus.

Role

3. The ARMC's role is to:
 - Assist the Board in discharging its responsibility to exercise due care, diligence and skill in relation to oversight of:
 - the integrity of external financial reporting;
 - financial management;
 - internal control systems;
 - accounting policy and practice;
 - the risk management framework and monitoring compliance with that framework;
 - related party transactions; and
 - compliance with applicable laws, regulations and standards;
 - Improve the quality, credibility and objectivity of the accounting process, including financial reporting;

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- Oversee and monitor the performance of the internal and external auditors;
- Assess the external auditor's independence and qualifications and ensure that:
 - the external auditor's independence is maintained; and
 - the external auditor's ability to carry out its statutory duties is not (and could not reasonably be perceived to be) impaired;
- Provide a structured reporting line for internal audit and ensure the objectivity of internal audit;
- Provide oversight of the structure and outcome of remuneration incentive arrangements as they relate to key internal audit personnel; and
- Act as a formal forum for free and open communication between the Board, internal audit and external auditors and Management.

Membership

4. In addition to the membership requirements specified in Schedule 1 to the Board Charter, the following specific requirements also apply to the ARMC:
 - All members of the ARMC must be non-executive Directors of Chorus.
 - The ARMC must have at least one member who has an accounting or financial background (although, where this member ceases to be a member of the ARMC, it is acknowledged that the ARMC may not have a member with an accounting or financial background for a short period while a replacement is found). A member of the ARMC will be deemed to have an adequate accounting or financial background if he or she:
 - is a member of Chartered Accountants Australia and New Zealand, or has held a Chief Financial Officer position at a listed issuer for a period greater than 24 months;
 - has successfully completed a course approved by NZX for Audit Committee Membership; or
 - has the experience and/or qualifications deemed satisfactory by the Board.
 - The Chairman of the ARMC must not be the Chairman of the Board.
 - Members of the ARMC should have an understanding of the industry in which Chorus operates.

Procedure

5. In addition to the procedural requirements specified in Schedule 1 to the Board Charter, the following specific requirements also apply to the ARMC:
 - The ARMC should meet the internal and the external auditors without Management present as a standing agenda item at each half yearly and annual meeting, and at other meetings if requested by either party;

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- The ARMC will meet to consider the approval of the half yearly and annual financial statements and accompanying commentary in annual and half year reports: currently, these meetings are held in February and August in each year;
- The external auditors, the internal audit manager and any outsourced internal audit firm are encouraged to meet as appropriate with the ARMC Chairman (independent of Management); and
- The ARMC Chairman will meet with Management, the internal audit manager and any outsourced internal audit firm and the external auditors (either together or separately as the Chairman deems appropriate) before each ARMC meeting and at other times as required.

Responsibilities and Duties

6. The Schedule to this Charter sets out the responsibilities and duties delegated to the ARMC by the Board. The purpose of this delegation is:
 - To assist the Board to discharge its duties in respect of all matters related to risk management and the financial accounting, audit and reporting of Chorus; and
 - To enable the ARMC to make recommendations to inform Board decision making.

ARMC members do not conduct Chorus' accounting or auditing

7. It is not the responsibility of the ARMC to conduct accounting or auditing reviews or procedures. Accordingly:
 - Management is responsible for the preparation, presentation and integrity of the financial statements;
 - Management is responsible for implementing and maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations;
 - Internal audit is responsible for independent reviews of the integrity of financial data and of the risk control framework and compliance with policies and regulations;
 - Chorus' external auditors are responsible for planning and carrying out each audit and review, in accordance with applicable auditing and review standards; and
 - Chorus' external auditors are accountable to shareholders (through the Committee and the Board).
8. The ARMC is structured so that as a collective group it has the appropriate mix of skills, expertise and knowledge to carry out its role.

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Powers and Authority

9. In addition to the powers and authorities specified in Schedule 1 to the Board Charter, the ARMC is specifically authorised by the Board to take action and/or make decisions in certain financial management and audit matters on behalf of the Board as follows:

Financial Management

10. The ARMC has power and authority, on the Board's behalf, to:
- Review, approve and execute any Director certificates required pursuant to financing arrangements, provided that two members carry out such execution; and
 - Review and approve accounting policies and report to the Board; and
 - Review and recommend changes on the Treasury Policy to the Board.

External Audit Services

11. The ARMC has power and authority, on the Board's behalf, to:
- Review the external auditor's half-yearly statement of fees for the audit or review of Chorus' financial statements and fees for all other services and monitor the ratio of those fee categories;
 - Review, at least annually, a report from the external auditor which describes:
 - Chorus' internal control procedures relating to external financial reporting;
 - findings from the most recent external audit and any steps taken to deal with such findings;
 - all relationships between the external auditor and Chorus;
 - "critical accounting policies" used by Chorus;
 - alternative treatments of financial information within Generally Accepted Accounting Practice that have been discussed with Management, the ramifications of these treatments and the treatment preferred by the external auditor;
 - the external auditor's policy on audit partner rotation, which should include confirmation that audit lead/engagement and client service partners are subject to five yearly rotation, and report to the Board;
 - Recommend the appointment of the external auditor to the Board (provided the appointee is appropriately qualified, meets the independence criteria set out in the External Audit Independence Policy and subject to shareholder approval) and termination of the external auditor's appointment as appropriate;
 - Pre-approve all services provided by the external auditor in accordance with the External Audit Independence Policy;

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- Pre-approve all audit and assurance services provided by firms other than the external auditor in accordance with the External Audit Independence Policy;
- Approve the external auditor's fees (and the Board will seek shareholder approval to set the fee), terms of engagement, external audit work plan and annual independence statement; and
- Approve the hiring of any former partner or audit manager, of the external auditor, in accordance with the External Audit Independence Policy.

Internal Audit Personnel and Services

12. The ARMC has power and authority, on the Board's behalf, to:

- Approve the list of key internal audit personnel recommended by the General Counsel and Company Secretary for the purpose of remuneration incentive governance;
- Review remuneration incentive arrangements for key internal audit personnel to ensure these are structured and operated in a manner which does not give rise to any perceived or actual compromise of the independence of those personnel;
- Recommend to the Board the appointment or termination of any outsourced internal audit firm; and
- Approve any outsourced internal audit firm fees, terms of engagement and internal audit work plan.

In this policy:

- "**key internal audit personnel**" means the Manager, Risk and Business Assurance and internal audit employees (if any).
- "**outsourced internal audit firm**" means any outsourced or co-sourced partnership for the internal audit function.

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Schedule: ARMC Responsibilities and Duties

| # | Responsibility | Timing |
|---|---|---|
| External Financial Reporting¹ | | |
| 1 | Reviewing and discussing the external financial reporting with management, including whether the reporting is consistent with the Committee members’ information and knowledge and whether it is adequate for shareholder needs. | Currently February and August meetings for half year and annual reporting |
| 2 | Considering, when conducting the above review: <ul style="list-style-type: none"> • The underlying quality, not just acceptability, of the external financial reporting; • Changes in accounting policy and practice; • Any significant accounting estimates and judgments; • Accounting implications of new and significant transactions; • Management practices and any significant disagreements between management and the external auditors; • The propriety of related party transactions; • Compliance with applicable New Zealand, Australian and international accounting standards; New Zealand and Australian Exchange requirements; and legislative requirements including the Companies Act (NZ), financial reporting legislation in New Zealand, and Corporations Act (Australia); and • Annual and half year certification by the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) as to the appropriateness of Chorus’ financial statements. | As above |

¹ In this Charter, “**external financial reporting**” means the half yearly and annual financial statements, commentary accompanying those financial statements in annual and half year reports, and the reports of the external auditor on the findings of their external audits/reviews.

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| # | Responsibility | Timing |
|--------------------------|--|--|
| 3 | Meeting with the external and internal auditors to discuss the practices and issues surrounding the external financial reporting. | As above |
| 4 | Reporting the results of the review to the Board and recommending, if appropriate, the Board adopt the external financial reporting. | As above |
| 5 | Discussing in a general manner the content of commentary in annual and half year reports given in respect of any half yearly and annual financial reporting. | As above |
| Internal Controls | | |
| 6 | Considering the adequacy of internal controls after consultation with the external and internal auditors and management (who should report at least annually to the Committee). | Periodically |
| 7 | Reviewing the six monthly fraud report and disclosing to the external auditor any fraud that involves employees who have a significant role in Chorus' internal controls. | Six monthly or as required |
| 8 | Reviewing the certification by the CEO and the CFO to the Board that Chorus' risk management and internal control system is operating effectively. | As above |
| 9 | Reviewing the principal risks of Chorus that are determined by the Board. | Periodically (usually quarterly) reporting on the principal risks to the ARMC Annual review of the risk appetite and principal risks by the Board |
| 10 | Ensuring that Management has established a risk management framework in line with the Board's risk appetite which includes policies and procedures to effectively identify, treat and monitor principal risks, and regularly reporting to the Board. | As above |

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| # | Responsibility | Timing |
|----------------------------------|--|--|
| 11 | Assessing the effectiveness of, and monitoring compliance with, the risk management framework. | Periodically (at least annually) |
| External Audit Services | | |
| 12 | Assessing and confirming to the Board the scope and adequacy of the external audit and the independence of the external auditor after consideration of the External Audit Independence Policy criteria. | Periodically (at least annually) |
| 13 | Ensuring that the lead audit engagement and concurring audit partners are rotated every five years. | Periodically as required |
| Internal Audit | | |
| 14 | Reviewing, and where necessary recommending, any internal audit manager appointment. | Periodically as required |
| 15 | Regularly monitoring and reviewing the internal audit work plan, regular reports from internal audit, Management responses and considering the level and standard of controls. | Periodically, usually quarterly |
| 16 | Oversee the independence and objectivity of the internal audit function and, where there is an outsourced or co-sourced partner: <ul style="list-style-type: none"> • Review the range of services provided by that partner, if any, in the context of all assurance and consulting services purchased); and • Annually review the performance of that partner and make recommendations to the Board regarding the conduct of the internal audit function. | Periodic review of the range of services of any internal audit partner, usually quarterly Annual review of performance of the internal audit function |
| Internal Audit Incentives | | |
| 17 | Reviewing the remuneration incentive arrangements for key internal audit personnel for each financial year. | Annually or as needed |

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| # | Responsibility | Timing |
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| Complaints | | |
| 18 | Ensuring the confidential and anonymous receipt, retention and treatment of complaints regarding accounting controls or auditing matters by use of the Compliance Manager, General Counsel and Company Secretary, Manager, Risk and Business Assurance and or fraud, whistle blowing or other breach reporting mechanisms. | At all times when complaint information received |
| 19 | Investigating matters under its authority. | As needed |
| Compliance with Applicable Laws and Regulations | | |
| 20 | Reviewing Chorus' compliance with applicable laws, regulations, and standards through Chorus' compliance frameworks. | Periodically (usually quarterly) |