



Audit and Risk Committee Charter

Fairfax Media Limited
008 663 161

Adopted by the Board on 12 October 2017

Contents

Table of contents

1	Membership of the Committee	3
2	Role & Responsibilities	3
3	Relationship with the external auditor	6
4	Relationship with the internal auditor	6
5	Rights of access and authority	6
6	Review	6
7	Administrative matters and procedures	7
	Attachment 1 – Administrative matters and procedures	8
	Attachment 2 – External audit policy	9
	Attachment 3 – Charter of Audit Independence	11

Committee Charter

1 Membership of the Committee

The Committee must consist of:

- only non-executive directors;
- a majority of independent directors;
- an independent chair, who is not chair of the Board; and
- a minimum of 3 members of the Board.

The Board may appoint additional non-executive directors to the Committee or remove and replace members of the Committee by resolution. Members may withdraw from membership by written notification to the Board.

Non-committee members, including members of management and the external auditor may attend meetings of the Committee at the invitation of the Committee chair.

It is intended that all members of the Committee should be financially literate and have familiarity with financial management and the members between them must have the accounting and financial expertise and a sufficient understanding of the industry in which the Company operates to be able to discharge the Committee's mandate effectively.

The Company Secretary or his or her delegate must attend all Committee meetings as minute secretary.

2 Role & Responsibilities

2.1 Overview

The Committee's key responsibilities and functions are to:

- (a) oversee the Company's relationship with the external auditor and the external audit function generally;
- (b) oversee the Company's relationship with the internal auditor and the internal audit function generally;
- (c) oversee the preparation of the financial statements and reports;
- (d) oversee the Company's financial controls and systems; and
- (e) in conjunction with the People and Culture Committee oversee the process of identification and management of risk.

2.2 Audit

The Committee's primary roles in relation to audit are to review and as required make recommendations to the Board in relation to:

- the reporting of financial information;
- the appropriate application and amendment of accounting policies; and
- the appointment, independence and remuneration of the external auditor.

The Committee also provides a link between the external auditors, the Board and management of the Company.

In discharging these roles, the Committee will:

- (a) Review the Company's corporate and financial reporting and disclosure processes and make recommendations to the Board in relation to the adequacy of those processes.
- (b) Review the Company's financial statements for accuracy, for adherence to accounting standards and policies, with the goal that they provide a true and fair view of, the financial position and performance of the Company, as a basis for recommendation to and adoption by the Board.
- (c) Receive and review reports of the external audit of the Company's financial statements.
- (d) Review and make recommendations to the Board in relation to the appropriateness of the accounting policies, judgements and choices adopted by management in preparing the Company's financial reports.
- (e) Establish procedures for the treatment of complaints received by the Company regarding accounting, internal accounting controls and auditing matters, and procedures for the submission of concerns by employees regarding accounting and auditing matters.
- (f) Monitor procedures designed to verify the existence and effectiveness of accounting and financial systems and other systems of internal control which relate to financial risk management.
- (g) Review and make recommendations to the Board in relation to the scope and adequacy of the external audit.
- (h) Review the effectiveness of the annual audit, placing emphasis on areas where the Committee or the external auditors believe special attention is necessary.
- (i) Review the scope, results, adequacy and effectiveness of the internal audit programs and the performance and objectivity of the internal audit function, including whether the internal auditors are adequately co-ordinated with the external auditor. Monitor the independence of the internal audit programs. Review the outcomes and approve the internal audit program.
- (j) Review the performance, independence and objectivity of the external auditor. Monitor compliance with the Company's Charter of Audit Independence (Attachment 3).
- (k) Review the procedures for selection and appointment of the external auditors and for the rotation of external audit engagement partners.
- (l) Make recommendations to the Board regarding the appointment, compensation, terms of engagement and other contractual terms of the engagement of the external auditor.
- (m) Review and monitor adherence to the Company's policy on the engagement of the external auditor to supply non-audit services and ensure compliance with that policy.
- (n) Provide advice to the Board as to whether the Committee is satisfied that the provision of non-audit services is compatible with the general standard of independence, and an explanation of why those non-audit services do not compromise audit independence, in order for the Board to be in a position to make the statements required by the *Corporations Act 2001* (Cth) to be included in the Company's annual report.

2.3 Risk management and compliance

The Committee's primary roles with respect to risk management and compliance are to review and report to the Board that:

- (a) the Committee has, at least annually, reviewed the Company's risk management framework to satisfy itself that it continues to be sound and effectively identifies areas of potential risk;
- (b) adequate policies and processes have been designed and implemented to manage identified risks;
- (c) a regular program of audits is undertaken to test the adequacy of and compliance with prescribed policies; and
- (d) proper remedial action is undertaken to redress areas of weakness.

The following are intended to form part of the normal procedures for the Committee's risk and compliance responsibilities:

- Review and monitor the adequacy and effectiveness of the management reporting and control systems used to test adherence to policies and guidelines and limits approved by the Board for management of balance sheet risks.
- Review and monitor the adequacy and effectiveness of the Group's financial and operational risk management control systems by reviewing reports from management and external auditors.
- Review and monitor the structure and adequacy of the Group's business continuity plans.
- Review and monitor the adequacy and effectiveness of the Group's identification and management of economic risks and its disclosure of any material exposures to those risks.
- At least annually, evaluate and make recommendations to the Board in relation to the structure and adequacy of the Group's insurance program having regard to the Group's business and the insurable risks associated with its business.
- Review and make recommendations to the Board on the strategic direction, objectives and effectiveness of the Group's financial and operational risk management policies.
- Review and make recommendations to the Board in relation to the risk disclosures in the Company's operating and financial review in its annual report.
- Oversee the establishment and maintenance of processes to maintain:
 - an adequate system of internal control, management of business risks and safeguard of assets; and
 - a review of internal control systems and the operational effectiveness of the policies and procedures related to risk and control.
- Monitor the Group's exposure to fraud, overseeing investigations of allegations of material fraud or malfeasance and making recommendations to the Board in relation to any incident involving fraud or other material break down of the entity's internal controls.
- Review the procedures in place to ensure compliance with insider trading laws, continuous disclosure (including requirements under the ASX Listing Rules, Corporations Act and AASB requirements).

- Advise the Board on the appropriateness of significant policies and procedures relating to financial processes and disclosures and reviewing the effectiveness of the Company's internal control framework.
- Review and discuss with management and the internal and external auditors the overall adequacy and effectiveness of the Company's legal, regulatory and ethical compliance programs.
- Oversee the Company's compliance with corporate governance and legal requirements in relation to CSR and related reporting.

3 Relationship with the external auditor

The Committee provides a link between the external auditor and the Board and will make recommendations to the Board in relation to the appointment and removal of the external auditor and the terms of the engagement.

The Committee is responsible for overseeing the Company's external audit policy.

4 Relationship with the internal auditor

The Committee provides a link between the internal audit function and the Board. The head of the internal audit function has a direct reporting line to the Committee and, therefore, to the Board.

The Committee has the responsibility for:

- (a) monitoring that an appropriate program of internal audit activity is conducted each financial year;
- (b) reviewing and monitoring the progress of the internal audit work program;
- (c) overseeing the coordination of the internal and external audit; and
- (d) monitoring management's responsiveness to internal auditor's finding and recommendations.

5 Rights of access and authority

The Committee has rights of access to management and to auditors (external and internal) without management present, and rights to seek explanations and additional information from both management and auditors. Whilst the internal audit function reports to senior management, it is acknowledged that the internal auditors also report directly to the Committee.

6 Review

The Board will, at least once in each year, review the membership and Charter of the Committee to determine its adequacy for current circumstances and the Committee may

make recommendations to the Board in relation to the Committee's membership, responsibilities, functions or otherwise.

7 Administrative matters and procedures

The proceedings of the Committee will be conducted in accordance with provisions set out in Attachment 1.

Administrative matters and procedures

Meetings

The Committee will meet as often as the Committee members deem necessary in order to fulfil their role.

Quorum

The quorum is at least 2 members.

Convening and notice of meeting

Any member may, and the Company Secretary must upon request from any member, convene a meeting of the Committee. Notice will be given to every member of the Committee, of every meeting of the Committee.

Independent Advice

The Committee may seek the advice of the Company's auditors, solicitors or such other independent advisers, consultants or specialists as to any matter pertaining to the powers or duties of the Committee or the responsibilities of the Committee, as the Committee may require.

Minutes

Minutes of meetings of the Committee must be kept by the Company Secretary. All minutes of the Committee must be entered into a minute book maintained for that purpose and be open at all times for inspection by any director.

Reporting

It is intended that a report of the actions of the Committee be reported to the Board meeting next following a meeting of the Committee.

The Committee chair will, if requested, provide an oral report as to any material matters arising out of the Committee meeting. All directors may, within the Board meeting, request information of members of the Committee.

External Audit Policy

Appointment

The Audit and Risk Committee (**Committee**) has the responsibility and authority (subject to *Corporations Act 2001* (Cth) requirements) for the recommendation to the Board of the appointment, reappointment or replacement and remuneration of the external auditor as well as evaluating its effectiveness and independence. The Committee will review the appointment of the external auditor annually based on its assessment of the auditor's performance.

Assessment of External Auditor

The Committee will review the performance of the external auditor on an annual basis after completion of the year-end audit. In evaluating the effectiveness of external audit, the Committee will assess the effectiveness of the external auditor based on a number of criteria including but not restricted to:

- the overall comprehensiveness of the external audit plan;
- the timeliness and quality of communications promised under the plan and delivered during the audit;
- the competency and industry knowledge of external audit staff; and
- the adequacy of resources to achieve the scope as outlined in the plan.

The Committee will seek feedback from management during the assessment process.

Independence

The Committee will 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. The review and assessment will be carried out annually at the time the external auditor presents its annual audit plan.

Prior to this review, the Committee will request a report from the external auditor which sets out all relationships that may affect its independence, including the provision of non-audit services, financial relationships, employment and other relationships and any other matters that may reasonably be thought to have bearing on the external auditor's independence. The report should outline any safeguards that the external auditor has in place to reduce any threat to independence to an acceptable level.

Before the directors approve the half-year and full year accounts, the external auditor will be asked to provide a declaration testifying to its independence in respect of the financial period in question. The external auditor will have a continuing obligation to notify the Committee, via the Company Secretary, of any new information it believes may be material to reviewing its independence.

The Committee has responsibility to develop and oversee the implementation of the Company's policy on the engagement of the external auditor to supply non-audit services and to ensure compliance with that policy.

Rotation of External Audit Engagement Partner

The external audit engagement partner is generally required to rotate at least once every 5 years. If appropriate, the Board may, following a recommendation from the Committee, extend the eligibility term of the audit engagement partner in accordance with the Corporations Act.

Charter of Audit Independence

Purpose

The purpose of the Charter of Audit Independence is to provide a framework for the Fairfax Board and management to ensure that the statutory auditor is both independent and seen to be independent. An independent statutory auditor is fundamental to sound corporate governance within the company. It should provide shareholders with reliable, open financial reports on which to base their investment decisions. The Charter of Audit Independence sets out the key commitments by the Board and procedures to be followed by the Audit and Risk Committee and management.

Key Commitments

1. The Audit and Risk Committee is responsible for the recommendation to the Board of the appointment of the statutory auditor. The auditor is required to have regular communications with the Committee, including at times without management being present.
2. The auditor will report to the Audit and Risk Committee its assessment of how Fairfax's accounting practices and reporting procedures compare with best practice.
3. Fairfax will require the auditor to provide suitably qualified personnel to ensure an effective audit. The auditor must provide audit personnel who are appropriately trained, meet the required technical standards, maintain confidentiality and behave in a professional manner at all times.
4. To ensure audit quality, and to allow for an effective audit service by suitably qualified professionals, the Board will ensure that the auditor is fairly rewarded for the agreed scope of the statutory audit and audit-related services.
5. The level of non-audit fees paid to the auditor may give rise to an actual or perceived loss of objectivity and, therefore, will be monitored by the Audit and Risk Committee. The services, which the auditor has technical capacity to supply, may be classified into four categories as follows:

Category A – services where the existing knowledge of the auditor brings insight and synergy to Fairfax without impacting the actual or perceived independence of the auditor.

Category B – services which can be provided without impacting the actual or perceived independence of the auditor.

Category C – services which may impact the actual or perceived independence of the auditor.

Category D – services which would impact the actual or perceived independence of the auditor.

The attached Schedule of Services provides examples of services falling within each category.

6. Subject to the following, the auditor may be engaged to perform Category A and Category B services. Where the estimated cost of any Category A or B services is:

(a) individually more than \$25,000.00, or

(b) in aggregate more than \$150,000 in any financial year,

the prior approval of the Chairman of the Audit and Risk Committee must be obtained before the auditor is engaged.

Services set out in Category AA of the Schedule of Services are audit services and therefore do not require separate authorisation as set out above.

The auditor may not be engaged to provide Category C services without the prior approval of the Chairman of the Audit and Risk Committee.

As part of the request for approval for a Category C service, management must list the reasons why the engagement will not impact the actual or perceived independence of the auditor. The request for approval must also include a schedule showing fees paid to the auditor for the year-to-date as well as a forecast of fees payable for the full year split into the various categories of services.

The auditor must not be engaged to perform any Category D services.

7. Recognising the restrictions on the use of the auditor, the Audit and Risk Committee may develop alternate supplier protocols as part of Fairfax's commitment to corporate governance.

8. Fairfax requires the auditor to commit to rotation of lead audit partner and independent review partner for Fairfax at least every five years in accordance with the Corporations Act.

9. Subject always to any requirements of Australian law or ASX Listing Rules, no partner or principal of the auditor may serve as a director or senior executive of Fairfax unless a minimum of three years has passed since leaving the auditor. In addition, no partner or principal of the auditor may be employed by Fairfax if that person has been a member of the auditor's assurance team for Fairfax at any time in the two years prior to the planned appointment.

10. The Audit and Risk Committee requires the auditor to confirm annually that it has complied with all Corporations Act requirements and professional regulations and guidelines issued by the Australian accounting profession relating to auditor independence and to confirm that:

- neither the auditor nor any of its partners has any financial interest in Fairfax;
- none of the members of the auditor's assurance team for Fairfax has any financial interest in Fairfax;

- there are no material business interests between Fairfax and the auditor;
- none of the superannuation funds of the partners of the auditor holds any direct financial interest in Fairfax;
- the staff superannuation fund of the auditor does not hold any direct financial interest in Fairfax;
- no portion of fees paid by Fairfax to the auditor is paid on a contingency basis;
- the level of total fees paid by Fairfax to the auditor does not have a material impact on the auditor's operations or financial conditions;
- any fees withheld by Fairfax have been approved by the Audit and Risk Committee; and
- to the best of the auditor's knowledge, there is no litigation pending, or in existence between Fairfax and the auditor.

The Audit and Risk Committee will advise the Fairfax Board annually whether the auditor has confirmed all of the above.

11. Fairfax will require the auditor to maintain quality control processes whereby all key accounting and auditing decisions are arrived at after consultation with the appropriate technical and professional experts in the audit firm.

SCHEDULE OF SERVICES

Category A services

- Audits of returns and reports required by regulatory bodies.
- Audits of entities associated with Fairfax, such as foundations and charities.
- Audits of circulation returns.
- Review of and advice on accounting policies and procedures.
- Review of general processes and financial controls where the nature of this is a natural extension of the process and control reviews normally performed by the statutory auditor.
- Independent accountant and due diligence services for the issuing of a prospectus or disclosure document.
- Taxation compliance.

Category B services

- Completion audits on acquisition and disposal of assets.
- Acquisition due diligence.

Category C services

- Taxation consulting.
- Secondments of staff.
- Consulting services where there may be a perceived independence concern or performance of the service may give rise to the auditor auditing its own work.

Category D services

- Design and implementation of new IT systems.
- Operating or supervising the operation of IT systems.
- Valuation reports.
- Book keeping.
- Executive recruitment.
- Legal services.
- Secondment of staff other than as set out in Category C.

- Internal audit services.

Category AA Services

- ABC Circulation Audits.
- CAB Circulation.
- Audit of associated entities eg Fairfax Foundation, Canberra Newspapers Ltd, Fairfax Plan Ltd, Sun Herald Toy & Koala Fund, PIDA and PIDA dealers licence.
- Audit of overseas subsidiaries including Fairfax EEC.