

# Audit, Risk Management and Compliance Committee Charter

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Woolworths Limited

Adopted by the Board on **29 July 2010**

# Woolworths Limited

## Audit, Risk Management and Compliance Committee Charter

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### 1 Introduction

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This Charter sets out the responsibilities, structure and composition of the Audit, Risk Management and Compliance Committee of the Board of Woolworths Limited.

### 2 Responsibilities

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#### 2.1 Overview

The Committee operates to provide advice and assistance to the Board in fulfilling its responsibilities in respect of the Group's external audit functions, internal audit functions (referred to as "Business Review" within Woolworths), risk management and compliance systems and practice, financial statements and market reporting systems, internal accounting and control systems, and other matters as directed by the Board. Relevant information is also reported to the People Policy Committee in accordance with the safety and health governance arrangements. The responsibilities of the Committee extend across the Company's global operations and include:

- **External Audit:** the Committee oversees the effectiveness of processes in place for the appointment, performance and independence of external audit services.
- **Internal Controls:** the Committee examines the adequacy of the nature, extent and effectiveness of the Business Review control processes of the Group.
- **Risk Management:** the Committee assists the Board in overseeing and reviewing the risk management framework and the effectiveness of risk management in the Group. Management is responsible for identifying, managing and reporting on and effecting measures to address risk.
- **Risk Event "Consideration":** the Committee oversees the appropriate investigation and management reporting of significant risk events and incidents.
- **Compliance:** the Committee assists the Board in fulfilling its compliance responsibilities and oversees and reviews the Group compliance framework and its effectiveness. The Committee also assists management to foster and support a compliance culture based on appropriate benchmarks.
- **Financial Reports:** the Committee oversees the Group's financial reporting processes and reports on the results of its activities to the Board. Specifically, the Committee reviews with management and the external auditor the Group's annual and financial statements and reports to shareholders.
- **Accounting Standards and Quality:** the Committee oversees the adequacy and effectiveness of the Group's accounting and financial policies and controls and risk management systems and seeks assurance of compliance with relevant regulatory and statutory requirements.

Further detail about the specific responsibilities of the Committee is set out below.

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### 2.2 External Audit

In respect of external audit the Committee:

- monitors and reviews the process for selecting the external auditors and makes recommendations to the Board regarding the appointment, re-appointment and removal of the external auditors. A formal process of a review of the appointment of the appointed auditor is undertaken every 3 years;
- monitors the performance of the external auditors annually;
- ensures the audit partner is rotated every 5 years;
- agrees annually the terms of the engagement with the external auditor, including the scope and proposed fee for audit and audit related services;
- reviews all audit reports provided by the external auditors, including but not limited to:
  - a. the overall scope and plans for the external audit activities including staffing and fees;
  - b. any significant matters arising from any audit and management's response;
  - c. any other major issues regarding accounting principles and financial statement presentations, internal controls, financial reporting issues, off-balance sheet exposures and other material accounting and financial reporting issues;
  - d. any summary of unadjusted audit differences and management's assessment of their validity and materiality;
- reviews interactions between management and the external auditor;
- reviews and monitors the independence of the external auditor. Such independence should be reviewed in light of the Corporations Act, applicable codes of professional conduct and "perceived" independence;
- reviews and monitors the framework for the approval of additional audit and non-audit services by the external auditors, and provides advice to the Board as to whether the Committee is satisfied that the provision of non-audit services does not compromise audit independence, and the reasons for being so satisfied;
- ensures that the external auditor has regular direct access to the Committee.

The Company will not invite any ex-audit partners to be appointed as Directors. Further, any ex-audit partners or senior audit personnel who may be proposed for appointment in a management position will be subject to Board approval.

### 2.3 Internal Audit

In respect of Business Review the Committee:

- reviews and monitors with the Head of Business Review:
  - the overall scope, annual plan and budget for Business Review activities;
  - progress against the annual work plan including any significant changes to it, any restrictions on scope of activities and any significant disagreements with management;

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- all key Business Review reports, including audit findings, management responses and action plans in relation to those findings, and reports from Business Review on the follow up of those action plans;
- the alignment of the risk management framework and internal audit activities;
  
- ensures that the Head of Business Review has regular direct access to the Committee;
- ensures that the Business Review function is adequately resourced to deliver the approved annual plan;
- reviews the objectivity of the Business Review function;
- reviews the performance and approves the appointment or termination of the Head of Business Review, who shall report to the Managing Director and Chief Executive Officer (CEO).

### 2.4 Risk Management

In respect of risk management the Committee performs the following functions to assist the Board in overseeing the Company's system of risk management and internal control:

- Reviews and updates the Company's policies on risk oversight and management and ensures that a summary of those policies is publicly available.
- Oversees management's actions in the identification, evaluation, management, monitoring and reporting of material operational, financial, compliance, reputational and strategic risks. In providing this oversight, the Committee:
  - reviews the framework and methodology for risk identification, the management of risk and the processes for auditing and evaluating the Company's risk management system;
  - provides input into rating business risks;
  - monitors the alignment of the Company's risk profile (which is presented to the Committee on at least an annual basis) with risk appetite and tolerance levels approved by the Board and the broader business and regulatory environment;
  - reviews material business risks that are reported to the Committee, including risk reports and action plans that are periodically presented to the Committee and any other communications from Senior Management, the Risk Steering Group and Group Risk & Safety;
  - reviews and where necessary approves guidelines and policies governing identification, assessment and management of the Company's exposure to risk, including the periodic review of those guidelines and policies;
  - reviews and approves the delegations of financial authorities and addresses any need to update these authorities on an annual basis;
  - reviews the Group's insurance arrangements to ensure appropriate and cost-effective coverage;
  - reviews annually the adequacy of self insurance provisions for workers compensation, public liability and general insurance;

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- ensures that the Group's risk management activities are adequately resourced;
  - evaluates the Group's exposure to fraud and oversees the appropriate investigation and management reporting of allegations of fraud or malfeasance and other significant risk events and incidents;
  - liaises with the People Policy Committee to ensure that remuneration related risks (particularly executive remuneration) are regularly monitored and controls are reviewed, updated and linked to the Company's risk management program.
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- Reviews the disclosure in the corporate governance statement of the annual report regarding the recognition and management of material business risks and ensures that appropriate assurances are received from management.
  - Reports to the Board, or ensures management reports to the Board, on any material developments in relation to the Group's risk activities and makes recommendations as appropriate for changes to the risk management framework or risk tolerance levels.

### **2.5 Compliance**

In respect of compliance the Committee:

- monitors the effectiveness of the Group Compliance program including the Compliance Team's design, implementation and management of the Group's compliance framework;
- reviews specific policies, systems and processes for addressing compliance with applicable laws and Company policy;
- reviews the Group's main corporate governance policies and reports, or ensures that management reports, the results of the reviews to the Board;
- receives reports from the Company's Group Manager Compliance and/or Group General Counsel & Company Secretary, including material notices to or inquiries received from government regulators or agencies;
- receives recommendations from the Group Manager Compliance and / or Group General Counsel & Company Secretary and / or Finance Director, as appropriate, on compliance policies, systems and processes relating to significant legal, compliance or regulatory matters that may have a material effect on the Company's legal liabilities or financial statements. Such matters may relate to all aspects of the Company's operations, including, safety and health, privacy, environment, trade practices and fair trading, trade weights and measures, and employment obligations;
- reviews compliance with agreed treasury policy;
- monitors procedures for the receipt, retention and treatment of complaints received by the Company regarding potential breaches of law, ethical standards or Company policy, whether received from employees or otherwise and whether or not provided on a confidential or anonymous basis.

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### 2.6 Financial Reporting

In respect of financial reporting the Committee:

- engages in the pro-active oversight of the Company's financial reporting and disclosure processes and oversees and reviews the outputs of that process (including review of the Company's financial statements for accuracy and to ensure they reflect a true and fair view, as a basis for recommendation to and adoption by the Board);
- recommends for approval by the Board the Company's half year and full year financial statements, Annual Report and Appendix 4E/D (full year/half year) statutory filings with supporting documents and accompanying notes having regard to:
  - a. the quality of earnings, liquidity and transparency and accuracy of reporting;
  - b. critical accounting policies applied and the implications of any changes in such policies;
  - c. compliance with relevant regulatory and statutory requirements;
  - d. areas of significant judgement and estimates by management and their treatment in the financial statements;
  - e. significant or unusual transactions or events and their implications for the financial statements;
- reviews any representation letters provided to the external auditors in respect of the financial statements;
- reviews and monitors the propriety of related party transactions involving directors, senior management and their external disclosure;
- reviews the section within the Annual Report that describes the work of the Committee and its responsibilities, the statement on internal control and the attendance records of its members;
- reviews the CEO and Finance Director declarations and assurances in respect of the financial statements and financials records.

### 2.7 Continuous Disclosure

The Committee reviews the detailed policies and procedures designed to ensure compliance with the ASX Listing Rules on continuous disclosure, and makes recommendations to the Board (on the advice of the Company Secretarial Department) regarding any amendments required to be made to the Continuous Disclosure Policy from time to time.

### 2.8 Other Matters

The Committee:

- a. undertakes from time to time any special projects or investigations which the Committee considers necessary, or as may be requested by the Board;
- b. meets with the Business Review and external auditors at least once a year without executive management being present;
- c. reviews such audit committee reports from subsidiaries or related entities as may be required;
- d. reviews and assesses the adequacy of this charter annually, and makes appropriate recommendations for revisions to be approved by the Board.

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### **3 Structure and Composition**

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#### **3.1 Composition of the Committee**

The Committee shall be comprised only of Non-executive Directors and must have at least three members. A majority of the Committee must be independent Non-executive Directors.

The Board is responsible for the appointment of members to the Committee, for setting the term of member appointments and for the revocation of any such appointments.

It is intended that all members shall have appropriate business expertise and will be financially literate. At least one member should have relevant financial qualifications and experience, as determined by the Board.

#### **3.2 Chair of the Committee**

The Chair of the Committee shall be appointed by the Board and shall not also be Chair of the Board. Should the Chair of the Committee be absent from a meeting, the members of the Committee shall choose one of their number to be Chair of the Committee for the meeting. The Chair of the Committee shall be an independent Non-executive Director.

The Chair of the Committee shall report to the Board after each meeting covering key issues and reports discussed at each meeting.

The Committee Chair will meet with the CEO, the Finance Director, Group General Counsel & Company Secretary, Senior Management and external and Business Review auditors between meetings to discuss and review matters relating to Committee functions as appropriate.

#### **3.3 Meetings**

The Committee shall meet as frequently as required, but not less than four times per year.

#### **3.4 Secretary**

The Company Secretary or delegate shall act as secretary to the committee and shall produce such papers and minutes of the Committee's meetings as are appropriate, in a timely manner.

#### **3.5 Attendance at Meetings**

A quorum at a meeting shall be two members.

The Committee may invite any person from time to time to attend meetings of the Committee.

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### **3.6 Authority of the Committee**

The Committee has the authority to:

- a. obtain independent professional or other advice in the fulfilment of its duties at the cost of the Company (subject to prior consultation with the Chair of the Board);
- b. obtain such resources and information from the Company in the fulfilment of its duties as it may reasonably require, and
- c. directly access Business Review and the external auditors, without management present, to discuss and review specific issues, and the right to co-ordinate their respective roles.

The Committee has full access to the Company's records and personnel, without management present. Whilst the Business Review function reports to senior management, it is acknowledged that Business Review also reports directly to the Committee.

Business Review as well as the external auditors have direct access to either the Committee or the Chair of the Committee.

### **3.7 Agenda Items**

Agenda items should be supported by written papers.

The following shall be standing agenda items:

- a. External auditor's report on progress of the audit programme.
- b. Business Review's report on progress of the audit programme.

In addition to reviewing financial processes and controls, the Committee should review and sign off on any:

- a. Significant accounting issues.
- b. Significant amendments to accounting policies.
- c. Significant amendments to the Company's risk management framework.

### **3.8 Review of Committee Performance**

The Committee will annually revisit its objectives and duties and evaluate the effectiveness of its performance.