

## **Directors Audit & Financial Risk Committee Charter**

---

### **1. OBJECTIVES**

The Audit and Financial Risk Committee is a committee established by the Board of Directors of Ergon Energy Corporation Limited to assist the Board to fulfil its corporate governance and oversight responsibilities by reviewing and reporting to the Board on the following matters in order to provide ongoing assurance in the areas of:

- financial integrity;
- regulatory reporting;
- financial risk and compliance issues;
- internal controls; and
- audit effectiveness and independence.

Non-financial risk and compliance issues, except those arising in Ergon Energy Queensland, are to be the responsibility of the Operational Risk Committee.

### **2. POWER TO ACCESS INFORMATION**

The Audit and Financial Risk Committee shall have the power to conduct or authorize investigations into any matter within its objectives or as requested by the Board. The Committee shall be entitled to have access to all information held by the Corporations. It is also authorized to discuss with any employee or contractor any matter that is the subject of an investigation.

As a matter of course, the Chairman will be provided with copies of all correspondence received from the Group's external auditors.

The Committee shall be empowered to retain independent counsel, accountants or other professionals to assist it in its investigations.

The Committee shall have direct access to the Manager Internal Audit and external auditors.

### **3. DUTIES & RESPONSIBILITIES**

To achieve its responsibilities the Committee will (as a guide):

- review controls, policies, procedures and compliance systems in relation to financial accounts and reports;
- review controls, policies, procedures and compliance systems in relation to financial risks (e.g. electricity, gas, credit, liquidity, interest rate, currency and commodity risks);
- review financial information provided periodically and annually to stakeholders;
- review the effectiveness of, and reports arising from, internal and external auditors and others as it sees fit;
- establish and maintain the high level risk management framework pertaining to the organisation's financial risks;
- periodically review and recommend to the Board the organisation's financial risk profile;
- review financial risk management reports provided to the Board;
- review breaches of financial risk management policy parameters and approve strategies to restore compliance;
- establish and maintain delegated authorities and a management framework to support the effective management of financial risks;
- review the process to ensure compliance with regulatory requirements specifically relating to the financial and energy markets risk management activities (such as AFMA guidelines, AFSL Responsible Officer and NEMMCO guarantees);

## Directors Audit & Financial Risk Committee Charter

---

- report to the Board on its work, express an opinion on the performance in the areas covered by this Charter and make recommendations to the Board as appropriate; and
- liaise as necessary with the Operational Risk Committee and the People Committee, especially where there is an actual or potential overlapping of responsibilities regarding particular risk and compliance issues.

### 3.1 FINANCIAL INTEGRITY

The Committee shall:

- assess the adequacy of the Group's internal control systems for key financial processes, including computer-based systems, by evaluating whether management is setting the appropriate "control culture" by communicating the importance of internal control and the management of risk and ensuring that all employees have an understanding of their roles and responsibilities;
- review a quarterly report from the Chief Finance Officer to assess whether:
  - each Corporation is solvent and able to pay its debts as and when they fall due;
  - key internal controls are in place and operating effectively in all material respects;
  - financial systems and changes thereto are being appropriately detailed and documented; and
  - if serious weaknesses or breakdowns in internal financial controls have been identified, that they have been appropriately dealt with;
- review the quarterly internal audit reports to the Committee for significant matters arising from audits and management action taken or planned in response to such matters;
- review external audit reports on internal control and accounting matters and management action taken or planned in response to such matters; and
- review an annual report on Goods and Services Tax (GST) issues, prepared to support the release of a GST compliance certificate to Queensland Treasury.

The Committee will consider the annual statutory financial statements and confirm with the Chief Finance Officer and the external auditor the Group's compliance with relevant accounting standards and regulations and the appropriateness of any financial policies adopted.

The Committee will review all management representation letters to the Board to ensure that the information provided is complete and appropriate.

The Committee will either resolve or refer to the Board, any differences of opinion between management and the external auditor and any other issues it considers necessary to resolve or so refer. In considering the statutory financial statements, the Committee may examine:

- financial matters such as significant accounting estimates, provisions, valuations, contingent liabilities and taxation issues;
- changes to significant accounting policies, reasons therefore, the appropriateness and not just the acceptability of the choice, and the external auditors views thereon; and
- current developments likely to affect the financial statements in terms of legislation, pronouncements and taxation, in the current and future years.

The Committee shall review reports on any major defalcations, fraud, theft or other losses and assess the adequacy of existing controls and the appropriateness of actions taken or planned by management in response to such matters.

### 3.2 REGULATORY REPORTING

The Committee will consider the annual regulatory statements and schedules and obtain confirmation from the Chief Executive, the Chief Finance Officer and the external auditor that the

## **Directors Audit & Financial Risk Committee Charter**

---

Group's regulatory statements and schedules are compliant with the reporting requirements and cost allocation guidelines approved by the Regulator.

The Committee shall review all management representation letters to the Board to ensure that the information provided is complete and appropriate.

The Committee will either resolve or refer to the Board, any differences of opinion between management and the external auditor and any other issues it considers necessary to resolve or so refer.

### **3.3 FINANCIAL RISK AND COMPLIANCE ISSUES**

The Committee will do the following:

#### ***(Policy)***

- approve and conduct regular reviews of financial risk management policies and recommend changes to the Board;
- review the adequacy of policies to effectively manage the organisation's financial risks.

#### ***(Risk Parameters)***

- review the organisation's risk tolerance to financial risks and ensure that these are correctly reflected in company policy;
- review risk analysis conducted to provide the required level of comfort that the risk parameters are protected across various market scenarios; and
- review, and if necessary, commission analysis of major market or other events impacting on the organisation's financial risks and evaluate the continuing effectiveness of risk controls to manage those risks.

#### ***(Financial Risk and Compliance Framework)***

- review delegations of policy limits, exposure management parameters and management authorities;
- review annually the operation of the Executive Risk Management Committee (ERMC) and recommend any changes to the Board;
- review risk management systems and procedures supporting the financial risk policies to ensure that reports are adequately detailed and documented;
- review that the necessary controls and procedures are in place and operating effectively or being developed to support the accurate and timely reporting of the organisation's financial risks and policy compliance;
- review the effectiveness of these systems in identifying, assessing and monitoring material risks (via internal audit); and
- review any significant financial risk and compliance issues identified by the internal and external auditors and the steps taken by management to control such risks.

#### ***(Financial Risk Reporting)***

- review the format, content and detail of risk reporting;
- review risk reports submitted to the Committee by management;
- review the adequacy of the Group's systems and processes to support the necessary reporting and ongoing monitoring of financial risks by management, in accordance with policy;
- review a quarterly report/reports from the Chief Financial Officer and Energy Risk or Middle Office Manager and others as appropriate addressing:

## Directors Audit & Financial Risk Committee Charter

---

- processes established by management for the ongoing identification and assessment of key financial risks;
- the level of adherence to and effectiveness of such Risk Management processes;
- the progress of initiatives to control and monitor key financial risks; and
- any significant changes to risk profile or exposure.

### ***(Financial Compliance Reporting)***

- review the format, content and detail of regulatory compliance reporting.

### **3.4 AUDIT EFFECTIVENESS & INDEPENDENCE**

The Committee shall:

- (a) review the quarterly report on internal audit matters and external audit reports (referred to in 3.1 above);
- (b) communicate the Committee's expectations to both the Internal and the External Auditor;
- (c) review and approve the strategic and annual Internal Audit Plans;
- (d) discuss with the External Auditor the overall audit approach, their approach to risk evaluation and their planned coordination with the Manager Internal Audit;
- (e) obtain from the Manager Internal Audit confirmation of their continued independence and objectivity, and that they have had no restrictions placed on their functions;
- (f) advise other Board Committees of audit issues relevant to the Committee having regard to the scope of its charter;
- (g) ensure that management responds to recommendations by the internal and external auditors;
- (h) assess auditor independence and ensure that the internal audit function remains independent of the external auditor; and
- (i) maintain, by regular meetings, open lines of communication among the Board, internal audit and external audit to enable an exchange of views and information as well as confirm their respective authority and responsibilities.

The Manager Internal Audit shall not be appointed, reassigned or removed without prior approval of the Committee, and the Committee is empowered to review the qualifications of internal audit personnel.

Review the qualifications of internal audit personnel and concur in the appointment, replacement, reassignment or dismissal of the internal audit manager.

## **4. MEMBERSHIP & MEETINGS**

### **4.1 APPOINTMENT**

The appointment of the Audit and Financial Risk Committee Chair will be a decision of the Ergon Energy Corporation Limited Board of Directors; however, the Audit and Financial Risk Committee Chair must not be the Chairman of the Board of Ergon Energy Corporation Limited. The Audit and Financial Risk Committee will comprise three (3) or more directors with the Chair of Ergon Energy Corporation Limited as ex officio member, if not already a member.

All members of the Committee shall be independent and shall be financially literate, or become financially literate within a reasonable period of time after appointment, and some members must have an understanding of the industry in which the group operates.

## **Directors Audit & Financial Risk Committee Charter**

---

At least one member must have audit, accounting and/or related financial management expertise (i.e. is a qualified accountant or other financial professional with expertise of financial accounting matters) as determined by the Ergon Energy Corporation Limited Board of Directors.

New Committee members will receive induction training from the Chairman of the Committee and the Chief Financial Officer's and Company Secretary's teams.

There is no prescribed term for membership. Members are appointed or removed by a resolution of the Board. Membership shall cease upon a member ceasing to be a Director.

A quorum will be a minimum of one half of the members (including the ex-officio members) entitled to attend. If the number of members is not even then the nearest lowest whole number will determine a quorum.

### **4.2 SECRETARIAL**

The Committee will be assigned a secretary who shall be responsible, in conjunction with the Chair, for drawing up and circulating the agenda supported by explanatory documents to Committee members within a reasonable period in advance of each meeting.

The Secretary will also be responsible for recording and keeping the minutes of the meeting and circulating them to Committee members and the Boards, and the auditors as appropriate.

### **4.3 MEETINGS**

Meetings shall be held not less than four (4) times a year.

Special meetings may be convened as required. Any member may require a meeting to be convened.

The proceedings of all meetings will be minuted.

### **4.4 ATTENDANCE**

The Chief Executive, the Chief Financial Officer, the Manager Internal Audit, the Business Risk and Compliance Manager, and the Company Secretary shall have standing invitations to attend all Committee meetings. Other executives or officers may be requested to attend Committee meetings to discuss or report on particular agenda items.

The Committee may determine from time to time, that it is appropriate to conduct meetings privately with senior management. The reasons for such meetings will be forwarded to the relevant executives with the invitation to attend the meeting. The Committee may at its absolute discretion, decide to exclude some or all non-committee members from such a meeting.

The Committee shall meet in private session at least annually to assess management's effectiveness.

A representative of the External Auditor shall have a standing invitation to attend meetings to discuss agenda items relating to audit issues, financial reporting and for general liaison purposes. The External Auditor shall liaise with the Chair to agree on the relevant agenda items.

## **5. REPORTING**

The Audit and Financial Risk Committee shall:

- regularly update the Boards about committee activities and make appropriate recommendations;
- ensure the Boards are aware of matters which may significantly impact the financial condition or affairs of the business; and
- submit a summary of activities for inclusion in the Annual Report of Ergon Energy Corporation Limited if required.

Submit a written report to the Board prior to the publication of the Company's full year accounts. This report will contain all matters relevant to the Committee's role and responsibilities.

## **6. OTHER RESPONSIBILITIES**

The committee shall perform other oversight functions as requested by the Boards, including the following (which shall be conducted at least annually):

- review and update the charter; receive approval of changes from the Board; and
- conduct a process of self-assessment, at intervals determined appropriate by the Chair to determine whether it is functioning effectively by reference to current best practice.

The results thereof shall be reported to the Boards.

APPENDIX 1

SUGGESTED STANDING AGENDA FOR MEETINGS

MEETING MONTH	AGENDA ITEMS
March Quarter	<p>Reports from:</p> <ul style="list-style-type: none"> <li>○ Chief Financial Officer</li> <li>○ Manager Internal Audit</li> <li>○ Energy Risk Manager (Energy Markets Risk Management Report)</li> <li>○ Regulatory Manager (Energy Markets Regulation Report)</li> </ul> <p>Annual performance review of internal audit.                      QAO audit approach/plan for the current financial year.                      Auditor independence assessment.                      Status of debts owed to, and by, the group.</p>
June Quarter	<p>Reports from:</p> <ul style="list-style-type: none"> <li>○ Chief Financial Officer</li> <li>○ Manager Internal Audit</li> <li>○ Energy Risk Manager (Energy Markets Risk Management Report)</li> <li>○ Regulatory Manager (Energy Markets Regulation Report)</li> </ul> <p>Annual review of Audit and Financial Risk Committee Charter.                      Internal audit strategy and annual audit plans for the coming financial year.                      Status of external audit and year-end business and accounting planning issues.                      Identified 30 June year-end accounting and audit issues for consideration/resolution.                      Status of debts owed to, and by, the group.                      Annual report on Goods &amp; Services Tax issues.</p>

APPENDIX 1

SUGGESTED STANDING AGENDA FOR MEETINGS (CONTINUED)

MEETING MONTH	AGENDA ITEMS
September Quarter	Reports from: <ul style="list-style-type: none"> <li>○ Chief Financial Officer</li> <li>○ Manager Internal Audit</li> <li>○ Energy Risk Manager (Energy Markets Risk Management Report)</li> <li>○ Regulatory Manager (Energy Markets Regulation Report)</li> </ul> Statutory financial statements and Annual Report and issues requiring resolution. Regulatory accounting statements and issues requiring resolution (or during October meeting).
December Quarter	Reports from: <ul style="list-style-type: none"> <li>○ Chief Financial Officer</li> <li>○ Manager Internal Audit</li> <li>○ Energy Risk Manager (Energy Markets Risk Management Report)</li> <li>○ Regulatory Manager (Energy Markets Regulation Report)</li> </ul> QAO audit clearance and management letter points. Status of debts owed to, and by, the group.