

## 1. Introduction

The Audit and Risk Management committee ("ARM Committee") is a committee of the Board of Directors of JB Hi-Fi Limited ("company") established under article 10.6 of the company's constitution.

This charter sets out the role, composition, authority, responsibilities and operation of the committee.

Meetings and proceedings of the ARM Committee will be governed by the provisions of the company's constitution relating to meetings and proceedings of the Board provided that they are applicable and not inconsistent with this Charter.

## 2. Powers

The ARM Committee may have unrestricted access to management, internal audit and the external auditors to fulfil its purpose and undertake its duties.

## 3. Role

The role of the ARM Committee is to:

- assist the Board in fulfilling its oversight of the reliability and integrity of financial management, accounting policies, asset management and financial reporting and disclosure practices;
- advise the Board on the matter of internal control including financial statements, due diligence, financial systems integrity and risk management;
- establish and maintain processes to ensure that there is:
  - compliance with all applicable laws, regulations and company policy; and
  - adequate systems of internal control, risk management and safeguard of assets;
- advise the Board on appropriate ethical standards for the management of the company;
- oversee the relationship, appointment and work of internal and external auditors;
- recommend to shareholders the termination of the external auditor's appointment where appropriate;
- recommend improvements to the correlation between financial and non-financial information and reports;
- strengthen the role and influence of non-executive directors;
- approve the terms and fees for engagement of the external auditor.

#### 4. Responsibilities

##### 4.1 External Reporting

The roles of the ARM Committee are carried out by:

- reviewing the appropriateness and integrity of the accounting principles adopted by management in the composition and presentation of financial reports including whether the financial disclosures made by management accurately portray the company's financial condition, plans and long-term commitments;
- overseeing the financial reports and the results of external audit of these reports;
- asking the external auditors for an independent judgement about the appropriateness of the accounting principles used and the clarity of financial disclosure practices used by the entity;
- reviewing the company's annual financial statements including whether they are complete and consistent with appropriate accounting standards and recommending such statements to the board;
- reviewing and monitoring the external and internal audit and risk management and compliance programs;
- reviewing documents and reports to regulations and make recommendations to the board on their approval or amendment;
- assess the management of non-financial information in documents to ensure that conflicts with financial statements and other documents do not occur, and assess the internal control systems covering information releases which have the potential to adversely reflect on the entity's conduct;
- review the completeness and accuracy of the entity's main corporate governance practices as required by the ASX Listing Rules; and
- recommend to the board whether the financial and non-financial statements should be signed based on the ARM Committee's assessment of them.

The management of the company is responsible for the preparation, presentation and integrity of the company's financial statements and reports. Management is also responsible for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations.

The external auditor is responsible for planning and carrying out a proper audit of the company's annual financial reports and review the company's six monthly financial reports.

##### 4.2 Internal Control and Risk Management

The ARM Committee should:

- prepare a risk profile which describes the material risks facing the company (including financial and non-financial matters);
- regularly review and update the risk profile;

- assess the internal processes for determining and managing key risk areas such as:
  - non-compliance with laws, regulations, standards and best practice guidelines (e.g. environmental and industrial relations laws);
  - important judgements and accounting estimates;
  - litigation and claims;
  - fraud and theft; and
  - relevant business risks not dealt with by other Board committees.
- evaluate the independence of non-executive directors and external auditor;
- ensure that effective risk management systems are in place and that macro risks are reported to the Board at least annually;
- receive from management reports relating to suspected and actual fraud, thefts and breaches of law;
- examine the effectiveness of the internal control system with management, internal and external auditors;
- evaluate the processes for assessing and improving internal controls;
- assess existing controls management has in place for unusual transactions or transactions with more than an accepted level of risk;
- assess the effectiveness of and compliance with the code of ethical conduct; and
- meet periodically with key management, internal and external auditors and compliance staff to understand the entity's control environment.

#### **4.3 Related Party Transactions**

The ARM Committee should review, monitor and assess related party transactions.

#### **4.4 External Audit**

The ARM Committee should:

- make recommendations to the Board on the appointment, remuneration and monitoring of the effectiveness and independence of the external auditor;
- ensure that recommendations made by management to replace the external auditor are carefully evaluated and reported to the Board before the Board makes a final decision;
- review the external auditor's fee and be satisfied that an effective, comprehensive and complete audit can be conducted for the external auditor's set fee;
- agree to the terms of engagement of the external audit before the start of each audit;
- invite the external auditor to attend Committee meetings to review the audit plan, discuss audit results and consider the implications of external audit findings;

- review the scope of the external audit and any additional procedures with the external auditor periodically;
- enquire of the external auditor as to any specific points of divergence with the entity's management;
- monitor and examine management's response to the external auditor's findings and recommendations;
- review all representation letters signed by management and ensure all information provided is complete and appropriate;
- make a time to meet with the external auditor, without having management present, at least once each year; and
- review the external auditor's independence based on the external auditor's relationships and services with the entity and other organisations.

#### **4.5 Internal Audit Review**

The ARM Committee oversees the scope of internal audit activities and has access to the internal audit function without management present if requested.

The ARM Committee shall develop internal audit plans and processes appropriate for the size and complexity of the company.

The internal audit function should report to management and have all necessary access to management and rights to seek information and explanations.

#### **5. Delegation**

Each member of the ARM Committee is entitled to rely on information, or professional or expert advice, given or prepared by:

- an employee of the company whom the member believes on reasonable grounds to be reliable and competent in relation to the matters concerned;
- a professional adviser or expert in relation to matters that the member believes on reasonable grounds to be within the person's professional or expert competence;
- another director or officer of the company in relation to matters within the director's or officer's authority; or
- a committee of directors on which the member did not serve in relation to matters within the authority of the ARM Committee.

#### **6. Membership**

The ARM Committee shall consist of at least two members, all of whom are non-executive directors. A majority of members of the ARM Committee must be independent directors. The ARM Committee will also have an independent chairperson who is not the chairperson of the Board.

Each member of the ARM Committee must have a working familiarity with basic finance and accounting practices.

Additionally, at least one member of the ARM Committee must have accounting or related financial management expertise.

At least one member must have some knowledge about the industry in which the company operates.

The Board shall elect both the chairperson and the members of the Committee and review such membership at times considered appropriate, including so as to ensure the Committee is of sufficient size, independence and technical expertise to discharge its mandate effectively.

## **7. Meetings**

The ARM Committee shall meet as often as is required to perform its functions. The quorum for meetings of the ARM Committee is two members of the ARM Committee. Any board member who is not a member of the ARM Committee may attend meetings of the ARM Committee. The external auditor must attend any meeting of the ARM Committee when requested by the ARM Committee. The Committee may request management and/or others to attend ARM Committee meetings and provide such input and advice as required.

Information sent to the ARM Committee will be forwarded on a regular basis to ARM Committee members and copied to other Board members. The chairperson of the ARM Committee shall determine, in consultation with the company's management, the external auditor and ARM Committee members, the agenda for each meeting of the ARM Committee. Any Board member may require a matter to be put on the agenda for an ARM Committee meeting for consideration.

The ARM Committee must keep minute books in which it records the proceedings and resolutions of its meetings. The minutes of a ARM Committee meeting must be circulated to Board members in a timely manner.

Resolutions of the Committee may be made at a meeting of the Committee; or where it is impractical to convene a meeting, by circular resolution signed by all ARM Committee members.

## **8. Annual Review**

In relation to the external auditor, the Committee shall on an annual basis:

- require the external auditor to:
  - submit to the ARM Committee a formal written statement delineating all relationships between the auditor and the company or any of its subsidiaries;
  - actively engage in discussions with the Committee concerning any relationships or services that may compromise the objectivity and independence of the external auditor;
- consider whether the external auditor's provision of non-audit services to the company is compatible with maintaining independence of the external auditor;
- submit a formal written report to the Board describing any non-audit services rendered by the external auditor during the most recent financial year, the fees paid for those non-audit services in aggregate and by each service, and explaining why

the provision of those non-audit services is compatible with the independence of the external auditor;

- if applicable, recommend that the Board of Directors take appropriate action in response to the ARM Committee's report to satisfy itself of the external auditor's independence; and
- consider whether to recommend to shareholders that the external auditor's appointment be retained or terminated.

The ARM Committee shall, on an annual basis:

- review its Charter to determine its adequacy for current circumstances and recommend to the Board the formal adoption of the revised charter for future operations of the ARM Committee;
- meet separately with the internal auditor and the external auditor, with or without management, to discuss the results of their audits;
- review with management and the external auditor, the financial report to be included in the annual report including:
  - the external auditor's responsibilities under generally accepted auditing standards;
  - significant accounting policies;
  - management judgements and accounting estimates;
  - adjustments arising from the audit;
- the external auditor's judgements about the quality, and acceptability of accounting principles as applied in the financial report; and
- prepare or consider any report or other disclosures to be included in the company's annual report or other communications to shareholders on the relationships between the external auditor and the company.

## 9. Authority

The Committee may conduct or authorise investigations into any matter within its scope of responsibility or matters delegated by the Board. The Committee shall have the authority necessary and appropriate to enable it to discharge its duties and responsibilities, including but not limited to:

- select, retain, and terminate external counsel, accountants or other experts as it deems appropriate; and
- approve the fees and other retention terms of such counsel, accountants or other experts;
- seek the information and assistance it requires from employees or agents of the company or external parties (without management presence);
- meet with the company's officers, external auditors, or external counsel as required

without seeking approval of the Board or management.

**10. Reporting to the Board**

The ARM Committee must report to the Board in relation to all matters relevant to the ARM Committee's role and responsibilities including:

- an assessment of whether external reporting is consistent with internal information and knowledge and is adequate for shareholder needs;
- an assessment of the management processes which support external reporting;
- procedures for the selection and appointment of external auditors and for the rotation of external audit engagement partners;
- recommendations for the appointment or removal of an auditor;
- an assessment of the performance and independence of the external auditor, including whether independence is maintained having regard to provision of non-audit services;
- an assessment of the performance and objectivity of the internal audit function; and
- the results of its review of the risk management and internal compliance and control systems.

**11. Miscellaneous**

The following should be made publicly available:

- the ARM Committee's Charter;

At the option of the ARM Committee the following documents may be made publicly available:

- information on procedures for the selection and appointment of the external auditor and for the rotation of external audit engagement partners;
- the process for performance evaluation of the Board, its committees (including the ARM Committee) and individual directors and key executive; and
- a description of the company's risk management policy and internal compliance and control system.