

# Scales Corporation Limited

## Audit & Risk Management

### Committee Charter

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#### Document Control

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## **AUDIT & RISK MANAGEMENT COMMITTEE CHARTER**

### **1.0 Constitution**

1.1 The Audit and Risk Management Committee (the *Committee*) shall be a committee of the board of directors (the *Board*) of Scales Corporation Limited (*Scales* or the *Company*).

### **2.0 Purpose**

2.1 The purpose of the Committee is to:

- a. oversee the financial reporting process to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control;
- b. provide the Board with an independent assessment of the Company's financial position and accounting affairs; and
- c. keep under review the effectiveness of the Company's procedures for the identification, assessment and reporting of material risks (including sustainability and climate-related risks).

2.2 Broadly, the Committee is to, among other things assist the Board in discharging its responsibility to exercise due care, diligence and skill in relation to oversight of:

- a. the integrity of external financial reporting;
- b. the application of accounting policies;
- c. financial management;
- d. internal control systems;
- e. the risk management framework and monitoring compliance with that framework;
- f. related party transactions;
- g. protection of the company's assets; and
- h. compliance with applicable laws, regulations, standards and best practice guidelines as they relate to financial disclosure.

### **3.0 Duties and Responsibilities**

3.1 The Committee does not take actions or make decisions on behalf of the Board. The Board has delegated certain functions to the Committee, which is responsible for, among other things:

#### *External Audit*

- a. monitoring all aspects of the external audit of the Company's affairs including:

- i. ensuring compliance with the Company's External Auditor Independence Policy and industry professional standards and ethical guidelines including receiving annual confirmation from the auditor of their independence in the previous 12 months;
  - ii. considering the appointment of the auditors, the audit fee and any issues on their resignation or dismissal;
  - iii. discussing with the auditors, before the commencement of each audit, the nature and scope of their audit;
  - iv. reviewing the auditors' service delivery plan;
  - v. reviewing the management report prepared by external audit, including the significant findings and management's responses;
  - vi. reviewing the Company's letter of representation to the auditors; and
  - vii. discussing with the auditors any problems, reservations, or issues arising from the audit and referring matters of a material or serious nature to the Board;
- b. overseeing the rotation of the Company's Key Audit Partner (as that term is defined in the NZX Listing Rules) at least every five years with a mandatory two year stand down period to be completed before that partner's next engagement with the Company. Regular rotation of the audit firm is not required;
- c. considering the engagement of the external auditor for non-audit work services including:
- i. approving any non-audit work assignments that fall outside those that are permitted, and that are not non-permissible, under the External Auditor Independence Policy including:
  - ii. approving any fees for non-audit services provided by the external auditor where the fees for those services will exceed the fees for core audit services;
  - iii. ensuring that the fees for any non-audit work provided by the external auditor is reported at every Board meeting;
- d. meeting at least once each year with the external auditors without the managing director or management being present; and
- e. providing an open avenue for communication between the Company's finance team, the external auditor and the Board, notwithstanding that the external auditor shall have direct access to the Board on any matter if required;

*Internal audit*

- f. monitoring all aspects of the internal audit function including:
  - i. considering and approve the appointment, termination, dismissal or replacement of the internal auditor;
  - ii. reviewing and assess the performance and objectivity of the internal audit function of the Company including the resourcing, budget and staffing, any outsourcing arrangements, independence and authority of its reporting obligations;
  - iii. reviewing the scope and adequacy of the internal audit plans, review and approve any planned changes during the year, and oversee the coordination of the plans with the external auditors;
  - iv. meeting at least once each year with the internal auditor without the managing director or management being present;
  - v. receiving and considering on a regular basis a summary of findings from completed internal audits and a progress report on the internal audit plan, with explanations for any deviations from the original plan;

*Financial reporting*

- g. reviewing the half year and annual financial statements, and any other financial statements to be released by the Company, before submission to the Board, focusing particularly on:
  - i. any change in accounting policies and practices;
  - ii. major judgmental areas;
  - iii. significant adjustments or sensitive matters such as disclosure of unusual, non-recurring, complex or related party transactions;
  - iv. the Company's tax position, compliance and any exposures;
  - v. the solvency of the Company;
  - vi. the going concern assumption;
  - vii. compliance with accounting standards;
  - viii. compliance with applicable laws, NZX Listing Rules and other regulatory requirements; and
  - ix. alignment of the financial disclosures with the Company's sustainability strategy;

- h. reviewing any non-routine statements to be issued by the Company in respect of its financial performance, including announcements to NZX Limited (NZX) concerning financial guidance or results;
- i. promoting integrity in all aspects of the Company's financial reporting;
- j. assessing the continuing quality, credibility and objectivity of the accounting process (including financial reporting);

*Risk management*

- k. reviewing the effectiveness of the Company's procedures for the identification, assessment and reporting of material risks;
- l. regularly reviewing the Company's internal controls and systems including discussing with the external auditors the adequacy and effectiveness of the internal controls and systems;
- m. considering the findings of any internal investigations relating to the Committee's responsibilities and management's response thereto;
- n. monitoring compliance by the Company with its Constitution, applicable laws and regulations and stock exchange requirements;
- o. establishing and regularly reviewing a procedure to identify other situations or circumstances in which the Company may be materially at risk and initiating appropriate action through the Board or the managing director;
- p. Monitoring the enterprise risks, through multiple channels including internal audit status reports, and progress on key risk-related initiatives.
- q. Reviewing enterprise risks annually through the ERM process, and review the ERM process

*Climate related risks and reporting*

- r. monitoring sustainability and climate-related risks and ensuring these are integrated into the Company's Enterprise Risk Management process;
- s. monitoring the Company's compliance with relevant legislation and other regulatory requirements related to climate-related risks and opportunities, climate-related disclosures (CRD) and recommending CRD approval;
- t. ensuring that the CRD is properly prepared and that proper CRD records are maintained; and
- u. reviewing the CRD to be released by Scales prior to submission to the Board.

*General*

- v. monitoring and regularly reviewing the authorities, delegations and procedures under which the Company may be committed;
- w. providing a formal forum for communication between the Board and senior financial management;
- x. identifying and directing any special projects or investigations it deems necessary in accordance with achieving the Committees objectives;
- y. reporting Committee actions to the Board with such recommendations as the Committee may deem appropriate;
- z. regularly reviewing and updating this Charter as the Committee deems appropriate.

3.2 The Committee shall further:

- a. regularly report to the Board on the operation of the Company's risk management and internal control processes and assess the Company's risk culture;
- b. have unrestricted access to the internal and external auditors;
- c. provide sufficient information to the Board to allow the Board to report annually to shareholders and stakeholders on risk identification and management procedures and relevant internal controls of the Company; and
- d. attend to any other matter put to the Committee for consideration by the Board.

**4.0 Access**

4.1 Members of the Company's senior management team have a right of access to the Chairperson of the Committee in relation to any matters of material concern that have been raised through the normal management process but have not been raised with the Committee.

4.2 The Committee will have access to, and the authority of the Board to seek any information it requires from any officers, employees, consultants or advisers to fulfil its function, duties and responsibilities. All employees will be directed to co-operate with any request made by the Committee.

**5.0 Membership**

5.1 The Committee will comprise at least three members. All members of the Committee will be non-executive directors.

5.2 The Committee shall comprise a majority of independent directors and have at least one director with an accounting or financial background.

- 5.3 The Committee will be structured to ensure that, as a collective group, it has the skills, experience and knowledge to fulfil its role and responsibilities. The Committee may, from time to time, co-opt external experts if the Committee believes this would assist the Committee to discharge its responsibilities.
- 5.4 The Board shall appoint a Chairperson from among the members of the Committee. The Chairperson is to be an independent director. The Chairperson of the Committee must not have a long-standing association with Scales' external audit firm as a current, or retired, audit partner or senior manager at the firm. The Chairperson of the Committee will generally be perceived to be independent for these purposes if there has been a period of at least three years between previously being employed by the external audit firm and serving as Chairperson of the Committee.
- 5.5 The appointment and removal of the Committee members shall be the responsibility of the Board.
- 5.6 The Company shall identify the members of the Committee and their relevant qualifications and experience each year in its annual report as well as record their meeting attendances.

## **6.0 Secretarial and Meetings**

- 6.1 The secretary of the Committee shall be appointed by the Board. The secretary is responsible, in conjunction with the Committee Chairperson, for co-ordination of all Committee business including an annual work programme, meeting scheduling, agendas, papers, minutes, Charter and policy reviews and communication with the Board and auditors.
- 6.2 A quorum of members of the Committee shall be a majority of members.
- 6.3 The Committee may have in attendance such members of management and such other persons including external advisers, as it considers necessary to provide appropriate information and advice.
- 6.4 All non-executive directors who are not members of the Committee shall be entitled to attend meetings by standing invitation. Employees (including executive directors) shall only be entitled to attend meetings of the Committee at the invitation of the Committee.
- 6.5 Any person may be asked to leave the meeting at the Chairperson's discretion.
- 6.6 Reasonable notice of meetings and the business to be conducted shall be given to the members of the Committee and all other members of the Board.
- 6.7 Meetings shall be held at least once per year without the managing director or management being present. Any member of the Committee may request a meeting at any time if they consider it necessary.
- 6.8 The Committee will convene a meeting if the auditors so request.

- 6.9 Proceedings of all meetings will be in accordance with the Constitution and otherwise as determined by the Chairperson of the Committee.
- 6.10 Meeting agendas will be distributed to all Board members regardless of whether they are members of the Committee.
- 6.11 Minutes of all meetings shall be kept.

## **7.0 Authorities**

- 7.1 The Committee will make recommendations to the Board on all matters within its responsibilities under this Charter which require the Board's decision. The Committee does not have the power or authority to make a decision in the Board's name or on its behalf.
- 7.2 The Committee is authorised by the Board, at the Company's expense, to obtain such outside legal or other independent information and advice including market surveys and reports, and to consult with such management and executive search consultants and other outside advisers with relevant experience and expertise, as it thinks necessary for carrying out its responsibilities.

## **8.0 Review of the Committee**

- 8.1 The Committee will undertake an annual self-review of its objectives and responsibilities. Such objectives and responsibilities will also be reviewed (as against the Committee Charter) by the Board and any other person the Board considers appropriate.

## **9.0 Reporting Procedures**

- 9.1 As soon as practicable after each Committee meeting the Committee will communicate its findings and recommendations to the Chairperson of the Board.
- 9.2 The full minutes of all Committee meetings will be circulated to members of the Board. Extracts from the minutes will be made available to such other persons as the Board directs, as may be necessary to enable them to properly carry out their functions.

## **10.0 Accountability to the Board**

- 10.1 This Charter has been approved by the Committee and the Board. The Committee reviews the Charter annually and recommends any proposed changes to the Board for approval.