Xero Limited
Audit and Risk Management Committee Charter

1. Role
The Audit and Risk Management Committee (Committee) is a Committee of the Board of Directors of Xero Limited (Xero). The Committee’s role is to assist the Board to fulfill its responsibilities in relation to:

- financial reporting principles and policies, controls and procedures;
- integrity of Xero’s financial statements;
- external audit functions;
- internal control processes and effectiveness, including controls to safeguard Xero’s assets;
- risk management; and
- compliance with applicable legal and regulatory requirements.

2. Committee membership
The Board will appoint and remove the members of the Committee and the Committee’s Chair. The Committee will comprise at least three members. All members must be non-executive directors and a majority must be independent. The Chair of the Committee will be an independent non-executive director and will not be the Chair of the Board. All Committee members must be financially literate, and at least one member shall have accounting and/or related financial management expertise.

3. Committee meetings
The Committee is to meet at least four times per year. A quorum may be formed by two Committee members, at least one of whom is independent. All Directors have a standing invitation to attend Committee meetings. The Chair of the Committee may call a meeting with the external auditor independent of management.
The Chief Operating and Financial Officer and the Chief Accounting Officer will be routinely invited to attend meetings of the Committee, unless the Chair of the Committee decides otherwise. The partner in charge of the external audit will be invited to relevant parts of meetings. Other senior managers may be invited to attend relevant parts of meetings.

Committee papers and minutes of Committee meetings are distributed to all Board members. A report on matters addressed by the Committee is provided at the next Board meeting.

4. Duties and Responsibilities

The primary responsibility of the Committee is to report to the Board and provide appropriate advice and recommendations on matters relevant to this Charter, in order to facilitate decision-making by the Board.

a) Financial Reporting and the Integrity of the Financial Statements

The Committee will monitor Xero’s financial and liquidity position, review whether Xero has sufficient financial resources to achieve its strategic plan, and monitor and confirm that it is able to meet its debts and other obligations when they are due.

The Committee will review, with management and Xero’s external auditor, the Xero financial statements intended for external publication, and will then make recommendations about approval to the Board, including whether they provide a true and fair view of the financial position of the company.

The Committee will also review all representation letters signed by management in connection with the Xero financial statements to ensure that all relevant matters are addressed.

The Committee will review and report to the Board on the results of the half-year review and the full year audit and any other matters required to be communicated to the Committee by the external auditor under generally accepted auditing standards.

The Committee will review and report to the Board on the adequacy of the processes used to prepare the financial statements, including the appropriateness of the accounting judgments or choices exercised by management.
The Committee will review Xero’s accounting policies and financial reporting practices to ensure their suitability and compliance with generally accepted accounting practice and applicable accounting standards. The Committee will assess the impact of changes in accounting standards and review recommendations for adoption of such changes in the financial accounts.

b) External Audit Functions

The Committee will make recommendations to the Board on the appointment, reappointment or replacement (subject to shareholder approval) of the external auditor. The Committee will monitor and report to the Board on the effectiveness, performance and independence of the external auditor.

The Committee will review, approve and report to the Board on the fees for and terms of the external auditor’s engagement, and on the scope and adequacy of the audit plan of the external auditors.

The Committee will review and report to the Board on the provision of non-audit services by the external auditors and whether it might compromise the independence of the external auditor, and the rotation of the audit engagement partner.

c) Internal Controls and Compliance

The Committee will oversee, review and report to the Board on the overall adequacy and effectiveness of:

- internal control systems, including accounting and financial controls, and compliance with those controls;
- controls and processes to safeguard Xero’s assets;
- compliance with applicable laws and regulations, including taxation compliance;
- ethical compliance, including Xero’s Code of Conduct and fraud and whistleblowing policies; and
- Xero’s insurance coverage.

The Committee will assess and report to the Board on:

- any material threatened or actual claims or issues in relation to taxation and legal matters; and
- any material incident implicating non-compliance with internal controls, such as fraud.
d) Risk Management

The Committee will assess and review:

- the overall adequacy and effectiveness of Xero’s risk management framework, and the methodology and processes for assessing, monitoring and managing financial and non-financial risks (including confirming that Xero’s risk management program effectively identifies new areas of potential risk);
- that adequate policies and procedures have been designed and implemented to manage identified risks, including a risk register that describes the material risks; and
- that processes are in place to ensure that proper remedial action is undertaken to redress areas for improvement.

The Committee will conduct these reviews at least annually and report to the Board with the results.

5. Authority

The Committee will not take any actions or make decisions on behalf of the Board unless specifically mandated. However, the Committee has the delegated authority of the Board to fulfil the duties and responsibilities in this Charter, subject to the Committee keeping the Board informed of its activities, and subject to any legal or regulatory obligation on the Board.

The Committee is authorised by the Board to discuss directly with management or the external auditors any issue within its remit and to request reports, explanations and information, and has access to Xero resources as it reasonably requires to meet its duties and responsibilities.

The Committee is authorised by the Board to obtain external accounting, tax, legal or other professional advice as it considers necessary and appropriate.

The Committee may deal with matters requiring a decision by way of written resolution. A written resolution will be deemed to have been passed once a majority of members eligible to vote have signed it, and will be effective the date the last member constituting the majority signs.

The Committee’s Charter will be reviewed at least every two years.

*Last reviewed: March 2018*