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
- the assurance (internal audit) function
- internal control processes and effectiveness, including controls to safeguard Xero's assets
- financial and non-financial risk management
- 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 or related financial management expertise.
3. Committee meetings

The Committee will 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 Chief Financial Officer will be routinely invited to attend Committee meetings, unless the Chair of the Committee decides otherwise. The partner in charge of the external audit will be invited to relevant parts of Committee meetings. The Chair of the Committee may invite the external auditor to attend a Committee meeting, either with or independent of management. Other senior managers may be invited to attend relevant parts of Committee meetings as the Committee considers necessary.

The Committee may ask any person to withdraw from any part of any meeting where there is a potential conflict of interest.

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 to the Board 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, Xero’s financial statements intended for external publication, and will then make recommendations for approval to the Board, including whether they reflect the understanding of the Committee members, and otherwise 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 Xero’s 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 Xero's corporate and financial reporting and disclosure processes and make recommendations to the Board about:

- the adequacy of those reporting processes (including the process to verify the integrity of any periodic reporting released by the Company)
- 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.

The Committee will oversee the effectiveness of the accounting and internal controls systems, including discussing (separately from management) with the external auditor matters relating to the conduct of the audit.

The Committee will review, with management, the financial forecasts intended for external publication and make recommendations for approval to the Board.

The Committee will review and recommend to the Board any dividend policy and the payment of any proposed dividend to shareholders.

(b) External Audit Functions

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

The Committee will review with the external auditor its report regarding significant findings in the conduct of its audit and the adequacy of management’s response, and oversee whether any issues are managed and rectified in an appropriate and timely manner.
The Committee will require that the external audit plan identifies areas of risk of material misstatement and any key financial risk areas for Xero.

The Committee will review, approve and report to the Board annually 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 annually 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 controls relating to non-financial risks, 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 material breaches of Xero’s code of conduct and material incidents under Xero’s whistleblowing policy and actions taken by management regarding breaches and incidents

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
- any material incident implicating non-compliance with internal controls, such as fraud

(d) Assurance (Internal Audit)

The Committee will:

- approve the structure of the assurance function
- review the scope and adequacy of the assurance program and periodically approve the assurance work plan
- review the performance and objectivity of the assurance function and whether it is adequately resourced
● monitor the independence of the assurance programs from management and the external auditors
● review significant assurance findings and action taken by management to address these
● review and approve the appointment and, if necessary the termination, of the head of the assurance function

(e) Risk Management

The Committee will assess and review:

● the overall adequacy and effectiveness of Xero’s risk management framework and management’s implementation of the risk management framework
● the overall adequacy and effectiveness of the methodology and processes for identifying, assessing, monitoring and managing financial and non-financial risks
● the risk appetite within which the Board expects management to operate, and whether any changes should be made to the risk appetite
● that adequate policies and procedures have been designed and implemented to manage current and emerging financial and non-financial risks, including a risk register that describes the material risks to Xero’s business
● the risk disclosures in Xero’s periodic reporting documents
● that processes are in place to ensure that proper remedial action is undertaken to redress areas for improvement and oversee the timeliness of remediation actions
● that management is communicating the importance of internal control and management of risk throughout Xero and therefore setting an appropriate ‘control culture’
● Xero’s insurance coverage

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

The Committee will provide inputs to the People and Remuneration Committee about matters to be taken into account when making remuneration decisions or setting remuneration objectives.

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 always 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 has signed it, and will be effective the date the last member constituting the majority signs.

The Board will periodically review the membership of the Committee and the Charter to determine its adequacy for current circumstances and the Committee may make recommendations to the Board about the Committee’s membership, responsibilities, functions or otherwise.

Last reviewed: February 2020