1. **Role**

1.1 The role of the Audit and Risk Management Committee (Committee) is to assist the Board of Xero Limited (Board) to oversee the risk management, corporate reporting, tax and audit practices of Xero Limited and its subsidiaries (Xero) including in relation to:

   (a) financial reporting processes, principles, policies and controls and the integrity of Xero’s financial statements

   (b) external audit of Xero

   (c) assurance (internal audit) processes

   (d) internal control processes and effectiveness, including controls to safeguard Xero’s assets

   (e) financial and non-financial risk management, including risk appetite

   (f) insurance

   (g) Xero’s climate strategy, governance and performance

   (h) compliance with applicable legal and regulatory requirements within the Committee’s area of responsibility

   (i) other matters referred by the Board from time to time

2. **Responsibilities**

*Corporate and Financial Reporting*

2.1 The Committee will oversee Xero’s corporate and financial reporting processes designed to safeguard the integrity of Xero’s corporate and financial reporting. In particular, 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

(b) review Xero’s consolidated financial statements intended for external publication and related corporate and financial periodic reporting and disclosures (other than Xero’s remuneration report and corporate governance statement which are reviewed by other Committees), and 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 Xero’s financial position

(c) review all representation letters signed by management in connection with Xero’s financial statements to ensure that all relevant matters are addressed

(d) 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

(e) review Xero’s corporate and financial reporting and disclosure processes (other than Xero’s remuneration report and corporate governance statement) and make recommendations to the Board about:

(i) the adequacy of those reporting processes (including the process to verify the integrity of any periodic reporting released by Xero)

(ii) the appropriateness of the accounting judgments or choices exercised by management

(f) 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 statements
(g) oversee the effectiveness of the accounting and internal controls systems, including discussing with the external auditor (separately from management) matters relating to the conduct of the audit

2.2 The Committee will review and monitor the reporting of related party transactions in accordance with financial reporting obligations.

**External Audit**

2.3 The Committee will oversee the external auditor’s role in the corporate reporting process. In particular, the Committee will:

(a) make recommendations to the Board on the appointment, reappointment, removal and remuneration of the external auditor (subject to any necessary shareholder approval)

(b) monitor and report to the Board on the effectiveness, performance and independence of the external auditor

(c) 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

(d) require that the external audit plan identifies areas of risk of material misstatement and any key financial risk areas for Xero

(e) 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

(f) 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

(g) periodically review the *Auditor Independence Policy* and recommend any changes to the Board for approval
Internal Controls and Compliance

2.4 The Committee will oversee, review and report to the Board on the overall adequacy and effectiveness of:
   (a) internal control systems, including accounting and financial controls and controls relating to non-financial risks, and compliance with those controls
   (b) controls and processes to safeguard Xero’s assets
   (c) compliance with applicable laws and regulations within the Committee’s area of responsibility, including taxation compliance

2.5 The Committee will assess and report to the Board on:
   (a) any material threatened or actual claims or issues in relation to taxation and legal matters
   (b) any material incident involving non-compliance with internal controls, such as fraud

Assurance (Internal Audit)

2.6 The Committee will oversee the effectiveness, independence and objectivity of the assurance function and will:
   (a) review the scope and adequacy of the assurance program and periodically approve the assurance work plan
   (b) review the performance, objectivity and resourcing of the assurance function
   (c) monitor the independence of the assurance programs from management and the external auditors
   (d) review significant assurance findings and recommendations and evaluate actions taken by management to address these
   (e) review and approve the appointment and, if necessary the removal, of the head of the assurance function
Risk Management

2.7 The Committee will at least annually review and report to the Board on:

(a) the overall adequacy and effectiveness of Xero’s risk management framework and management’s implementation of the risk management framework in light of the risk appetite set by the Board

(b) the overall adequacy and effectiveness of the methodology and processes for identifying, assessing, monitoring and managing financial and non-financial risks

(c) whether 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

(d) whether processes are in place to ensure that proper remedial action is undertaken to redress areas for improvement and oversee the timeliness of remediation actions

(e) whether management is communicating the importance of internal control and management of risk throughout Xero and therefore setting an appropriate ‘control culture’

2.8 The Committee will annually review and make recommendations to the Board in relation to:

(a) the risk appetite within which the Board expects management to operate, and whether any changes should be made to the risk appetite

(b) the risk disclosures in Xero’s periodic reporting documents (including whether the review of the risk management framework has taken place and whether Xero has material exposure to environmental or social risks and if so, how it intends to manage those risks)

(c) Xero’s insurance program, having regard to Xero’s business and the insurable risks associated with its business, including directors’ and officers’ insurance
Tax, Treasury, Climate and other significant matters

2.9 The Committee will periodically review and report to the Board on Xero’s tax management including reviewing and making recommendations to the Board on the Group Tax Risk Strategy and Controls Framework and overseeing the adequacy of, and compliance with, that framework.

2.10 The Committee will oversee and report to the Board on Xero’s Treasury function including periodically reviewing the Treasury Policy and Group Bank Mandate, and recommending any changes to the Board.

2.11 The Committee will review and make recommendations to the Board in relation to Xero’s climate strategy, and oversee and review Xero’s climate governance and performance.

2.12 The Committee will annually review and recommend to the Board Xero’s modern slavery statement.

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

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

3. Committee membership

3.1 The Board will appoint and remove the members of the Committee and the Committee’s Chair, taking into account the recommendations of the Nominations Committee. Membership of the Committee will be reviewed periodically.

3.2 The Committee will comprise:

(a) at least three members
(b) only non-executive directors
(c) a majority of independent directors
(d) an independent non-executive director as Chair, who is not the Chair of the Board
3.3 All Committee members must be financially literate, and the Committee members between them must have the accounting and financial expertise and a sufficient understanding of the industry in which Xero operates to be able to discharge the Committee’s mandate effectively.

4. **Committee procedures**

4.1 The Committee will meet at least four times per year.

4.2 A quorum may be formed by two Committee members, at least one of whom is independent.

4.3 All directors have a standing invitation to attend Committee meetings.

4.4 The Chief Executive Officer, Chief Financial Officer and Chief Legal Officer will be routinely invited to attend Committee meetings, unless the Chair of the Committee decides otherwise.

4.5 The engagement partner of the external audit firm will be invited to attend relevant parts of Committee meetings, either with or without management present, as the Chair of the Committee determines.

4.6 Other members of management may be invited to attend a Committee meeting, as the Chair of the Committee considers necessary.

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

4.8 Committee papers and minutes of Committee meetings are distributed to all directors.

4.9 A report on matters addressed by the Committee is provided at the next Board meeting.

4.10 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.

4.11 The Company Secretary, or delegate, will be the Secretary of the Committee.

5. **Authority**

5.1 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.

5.2 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.

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

6. Charter Review

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

_Last reviewed: March 2022_