



**Fortescue**  
The New Force in Iron Ore

## Charter

# Audit and Risk Management Committee Charter

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Fortescue Metals Group Limited

22 May 2018

# Audit and Risk Committee Charter

## Purpose

The Audit and Risk Management Committee (Committee) is a sub-committee of the Board. The purpose of the Committee is to assist the Board in ensuring that there is effective oversight of published financial information, there are sound systems of internal control and effective management of risk. For the purposes of this Charter, “the Company” refers to all entities and operations controlled by Fortescue Metals Group Limited.

## Scope

The Committee shall be responsible to the Board for monitoring and oversight of the following matters:

- Corporate governance and sustainability;
- Financial reporting;
- Internal control framework;
- External audit;
- Tax risk management and compliance
- Risk management;
- Internal audit;
- Compliance with the Corporations Act, ASX Listing Rules and Corporate Governance Principles; and
- Any other matters referred to it by the Board, including oversight of the Whistleblower Hotline.

The attached Appendix provides guidance on the responsibilities of the Committee as determined by the Board.

These responsibilities have been allocated to the Committee on the basis that the primary responsibility for management of these matters sits with the Chief Executive Officer and the management team.

## Membership

The Committee shall consist of at least three non-executive directors appointed by the Board, a majority of whom should be independent directors. Committee members shall have the financial management skills and business acumen which will allow them to be effective in their role. Committee members shall hold appropriate formal qualifications.

The Chair of the Committee shall be an independent director appointed by the Board. In the temporary absence of the Chair, one of the other Committee members, either nominated by the Chair or elected by the Committee, will act as Chair.

The Chair of the Board shall not be a member of the Committee but may attend Committee meetings.

A quorum of the Committee shall be at least two members. Any director who is not a Committee member may attend meetings at their discretion but only as an observer. The Company Secretary of Fortescue Metals Group Limited shall be the Secretary of the Committee.

## Attendees

Other than for non-member directors who may attend Committee meetings at their discretion, attendance at meetings is by invitation.

## Meeting Frequency

The Committee shall meet at least four times per annum and at other times as the Chair, a member, or the Secretary of the Committee, requires.

## Reporting

The Committee shall regularly report to the Board on the matters discussed at each meeting and minutes of meetings shall be received by the Board. The Committee Chair will attend the annual general meeting of the Company to ensure that any shareholder questions on the Committee's activities can be addressed.

## Resources

The Committee shall have full authority and resources to investigate all matters falling within its Charter. The Committee may, at the Company's expense, obtain any external independent professional advice as it considers necessary.

## Evaluation of Committee Performance

The Committee Chairman shall assess the performance of the Committee on an annual basis and take appropriate action to address desired improvements in respect of areas where there is a need to enhance its role, effectiveness, process or composition.

## Review of Committee Charter

The Committee Chairman is responsible for ensuring that the Committee Charter is reviewed at least every year for the purpose of assessing its continued relevance to the needs of the Board and identifying any enhancements required. Proposed enhancements shall be submitted to the Board for approval.

This Charter was approved by the Board of Fortescue Metals Group Ltd on 22 May 2018.

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## Appendix Committee Responsibilities

### Corporate Governance and Sustainability

Ultimate responsibility for corporate governance and corporate sustainability lies with the Board of Directors. The Board may delegate the consideration or review of any specific governance or sustainability matter to the Committee as deemed appropriate from time to time.

The Board has delegated specific responsibility to the Committee for monitoring the performance of environmental management and related risks and controls through:

- Review of regular environmental compliance updates;
- Periodic consideration of material risks related to environmental performance and compliance obligations;
- The effectiveness of internal environmental compliance controls implemented by management; and
- Assessing the impact of any adverse external regulatory/audit findings on environmental management systems.

### Financial Reporting

In reviewing and monitoring the Company's financial reports, the Committee shall consider with management the following

- Appropriateness of critical accounting policies, judgments and estimates applied in the preparation of the financial reports;
- Alternative accounting policies applied by other companies;
- Implications of expected changes in accounting policies;
- Significant financial reporting judgments used in preparing the financial reports;
- Quality of earnings and the implications of earnings volatility resulting from exceptional and/or non-recurring income and expenditure;
- Impact of the Company's financing structure on current and future profitability;
- The effectiveness of financial systems and controls within the Group;
- The sensitivity of the Company's financial performance to material business risk; and
- The way in which corporate governance matters are disclosed in the financial report.

The Committee shall recommend to the Board that the financial information in the annual and interim reports be approved.

## External Audit

Committee oversight of the external audit function will include:

- Recommend to the Board the appointment, reappointment and removal of the external auditors and review their qualifications, objectivity, independence, strategic focus and resources with respect to any services provided to the Company;
- Review with the external auditors the scope of their audit and subsequently their audit findings, including any recommendations for improvements in internal controls;
- Monitor the effectiveness of the external auditors and the responsiveness of management to their findings and recommendations;
- Periodically meet with the external auditors, independently of management, to discuss the quality of the Company's accounting principles, material judgments and any other matters that the Committee or external auditors deem appropriate;
- Agree the terms of engagement and approve the fees and other remuneration paid to the external auditors for audit services;
- Review and approve the policy for in-advance approval of all audit and non-audit services provided by the external auditors; and
- Recommend to the Board the policy for rotation of external audit engagement partners.

## Risk Management

The ASX Corporate Governance Principles and Recommendations (3<sup>rd</sup> Edition) provides fundamental principles for a strong corporate governance framework. Whilst compliance with the ASX Principles is not mandatory, companies are required to report and explain any deviations from the principles. The Board believes that the Principles represent a sound basis for good governance.

The ARMC, as delegated by the Board, has an important role to play in providing oversight of the Company's approach to risk management. Specifically, the Committee will:

- **Understand and endorse the Company's risk appetite.** Risk appetite is the amount of risk an organization is willing to accept in pursuit of stakeholder value. The Company's management should engage with the Committee to establish a mutual understanding of the Company's overall appetite for risks.
- **Review the extent to which management has established an effective system of risk management and internal control.** The Committee should consider the effectiveness of existing risk management processes and require management to demonstrate the effectiveness of those processes in identifying, assessing, and managing the Company's most significant risk exposures.
- **Review the Company's risk profile by comparison to its risk appetite.** Effective oversight of risks is contingent on the ability of the Committee to understand and assess the Companies strategies for managing its critical risk exposures.
- **Undertake periodic review of the Company's most significant risks and whether risk management strategies are appropriate.** Risks constantly evolve and regular updating by management to the Committee of key risks and associated risk strategies is critical to effective Board oversight of key risk exposures.

## Tax Risk Management and Compliance (TRMC)

In reviewing and monitoring the Company's tax risk management and governance, the Committee shall consider the following:

- Assurance as to the operational effectiveness of the Company's formal TRMC framework;
- Appropriateness of critical tax policies and judgements applied in the preparation of financial reports and compliance obligations;
- Implications of expected changes in prevailing and applicable tax laws to the Company's operating business and structure;
- Comfort that the thresholds and timing for escalation of tax risks to the Committee and Board are set at an appropriate level; and
- The Company's tax profile, including its effective tax rate and the basis for any significant deviation from the prevailing corporate tax rate.

## Internal Audit

The Company's internal audit function reports directly to the Committee on the outcomes of its reviews. The Board has endorsed an Internal Audit Charter that sets out the requirements of the internal audit function. Day to day management of the internal audit function is the responsibility of the Chief Financial Officer.

Committee oversight of the internal audit function shall include:

- Approval of the appointment of the Group Manager Risk & Assurance;
- Approval of the appointment of any internal audit service provider;
- Approval of annual internal audit plans;
- Review of reports on the outcomes of internal audit reviews;
- Approval in advance of all non-internal audit services provided by any internal audit service provider; and
- Meet independently with the Group Manager Risk & Assurance (including the internal audit service provider where appropriate) at least annually to discuss any significant difficulties encountered, including restrictions on the scope of work, access to required information and any other relevant matters.

## Internal Control Framework

The Committee will monitor the performance of the internal control framework through:

- Review of the effectiveness of internal financial processes and controls implemented by management; and
- Assessing the impact of any adverse external and internal audit findings on internal control systems.

## Reporting to the Board

### *Periodic Reporting on Committee Activities*

The Committee will report to the Board on Committee activities at each Board meeting. Activities to be reported will depend on the Committee's agendas for each meeting, but in the context of its annual meeting cycle Committee reports will include the following:

- Assessment of whether the Company's external financial reporting performance is of the required standard and is adequate for shareholder needs;
- Assessment of the strength of the internal control framework based on the outcomes of internal audit reviews;
- Assessment of the performance of management in addressing material business risks;
- Processes and controls related to the selection and appointment of the external auditors, maintenance of the external auditor's independence and compliance with the engagement partner rotation policy;
- Recommendations for the appointment or, if necessary, the removal of the external auditor;
- Assessment of the performance and independence of the external auditors; and
- Assessment of the performance of the internal audit function and recommendations for the appointment or, if necessary, the removal of the internal audit service provider.

### *Annual Reporting to the Board*

**A. Risk Management and Internal Control-** Within the context of the above reporting requirements, the Committee, in accordance with the requirements of the ASX Corporate Governance Principles and Recommendations (3<sup>rd</sup> Edition) related to risk management, will:

- On an annual basis, advise the Board that the Committee has reviewed the Company's risk management framework to satisfy itself that it continues to be sound (Recommendation 7.2); and
- On an annual basis, advise the Board as to whether it has received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively (Recommendation 4.2).

These matters must be reported to the Board prior to the Board adopting the audited annual financial report.

**B. Corporate Governance Statement:** The Committee will ensure that the following material is included in the Corporate Governance Statement in the Annual Report and/or as separately reported by the Company:

- An explanation of any departures from the ASX Corporate Governance Principles and Recommendations (3<sup>rd</sup> Edition); and
- Whether the Company has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks (Recommendation 7.4).