

# AUDIT COMMITTEE CHARTER

Owner: Vector’s board of directors  
 Approved: June 2010

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## 1. STATUS AND OBJECTIVES

### 1.1 Status

The audit committee is a sub-committee of the board of Vector and exercises the board’s authority in respect to those responsibilities delegated to it by the board and is accountable to the board for its performance.

### 1.2 Objectives

The objectives of the audit committee are to:

- (a) Assist the board to discharge its responsibility to exercise due care, diligence and skill in relation to the oversight of:
  - (i) The integrity of Vector’s external financial reporting;
  - (ii) Financial management;
  - (iii) Accounting policy and practice;
  - (iv) Compliance with applicable laws, regulations and standards as they relate to financial information;
- (b) Improve the quality, credibility and objectivity of the accounting process, including financial reporting;
- (c) Oversee the appointment, remuneration, qualifications, independence and performance of the external auditor and the integrity of the audit process as a whole;
- (d) Review the financial reporting process, the system of internal financial control, the external audit process and Vector’s process for monitoring compliance with statutes and its policies to the extent that they apply to financial information;

- (e) Review Treasury risk management controls; and
- (f) Act as formal forum for free and open communication between the board, the external auditors and management.

## **2. COMPOSITION**

### **2.1 Membership and qualifications**

The audit committee must comprise not less than three members, being non-executive directors of Vector, at least one of whom must have an adequate accounting or financial background and the majority of whom are acknowledged as independent by the board pursuant to its charter. The chair shall be an independent director and shall not be the chairman of the board.

A director shall be considered to have an adequate accounting or financial background if one or more of the following criteria are met: the director

- (a) Is a member of the Institute of Chartered Accountants of New Zealand, or has held a chief financial officer position at a listed company for a period greater than 24 months;
- (b) Has successfully completed a course approved by NZX for audit committee membership; and
- (c) Has experience and/or qualifications deemed satisfactory by the board.

### **2.2 Appointment and removal of members**

The board must appoint the members and chair of the audit committee. Members may be removed from the audit committee by the board at any time during their tenure. The chair of the risk and assurance committee shall be appointed a member of the audit committee.

## **3. MEETINGS AND PROCEDURE**

### **3.1 Meetings**

The audit committee shall meet formally at least three times per year and at such other times the audit committee considers appropriate to fulfil its responsibilities, including any meetings requested by the external auditors.

### **3.2 Board procedure to apply**

The procedure of the board in relation to meetings shall apply to the audit committee with all necessary modifications.

### **3.3 Quorum**

A quorum for an audit committee meeting shall be three members.

### **3.4 Attendance at meetings**

The audit committee may extend an invitation for attendance to the chief executive officer and the chief financial officer where the audit committee thinks this is appropriate. The external auditors must be invited to attend those parts of any meetings related to their responsibilities as required. A standing invitation shall also be extended to director's who are not members of the audit committee to attend meetings of the committee unless the committee decides to withdraw that invitation in respect to any particular meeting or part thereof.

### **3.5 Meeting with external auditors**

The audit committee will meet with the external auditors of Vector at least once a year, and for at least part of that meeting no executive director or other employee of Vector should be present.

## **4. AUTHORITY**

4.1 The board authorises the audit committee, within the scope of its responsibilities to:

- (a) Seek any information it requires from any employee of Vector and external parties;
- (b) Obtain external legal or other professional advice; and
- (c) Require the attendance of Vector officers at meetings as appropriate.

## **5. RESPONSIBILITIES**

5.1 The board has delegated to the audit committee the responsibilities set out in **Appendix 1**. The audit committee may vary the times of meetings and the meeting at which it considers matters as the committee sees fit.

## **6. REPORTING**

6.1 The audit committee shall regularly update the board about audit committee activities at the next scheduled board meeting (unless circumstances require earlier communication) and make appropriate recommendations, and should ensure that the board is made aware of any matters which may significantly impact on the financial condition or affairs of the business.

## **7. REVIEW OF AUDIT COMMITTEE**

7.1 The audit committee shall undertake a regular self review of its:

- (a) objectives and responsibilities; and
- (b) charter.

## APPENDIX 1 – RESPONSIBILITIES AND MEETING AGENDA FRAMEWORK

Responsibility	FEB	AUG	NOV
<b>Committee administration</b>			
<b>Minutes</b> - Minutes of previous meeting	✓	✓	✓
<b>Charter review</b> - Review audit committee charter in cycle with Committee performance evaluation (two yearly)			✓
<b>Performance evaluation</b> - Periodic Committee performance evaluation (with board Assessment (yearly)			✓
<b>Report to board</b> - Summary of committee proceedings to board of directors	✓	✓	✓
<b>Review BRAC</b> – Consider the minutes of the board risk and assurance committee minutes	✓	✓	✓
<b>Accounting policies and practices</b>			
Evaluate annually the appropriateness of, and changes to, accounting policies and practices. The review presented by management shall cover:  (i) Major estimates, uncertain or unusual transactions, and provisions made in financial statements (ii) Significant accounting issues (iii) Interpretation of accounting standards.			✓
<b>Financial reporting</b>			
<b>Financial statements</b> - Receive from management the draft financial statements in a form which draws to the Audit committee's attention items that vary from previous financial statements and judgements made by management and the rationale for them, including with respect to:  (i) Asset carrying values (ii) Major estimates, uncertain or unusual transactions, and provisions made in financial statements (iii) The going concern assumption including adherence to loan agreements and borrowing powers (iv) Related financial and other information presented with the financial statements, including any 'operating financial review' (v) Interpretation of financial reporting standards, stock exchange and legal requirements (vi) Misstatements (vii) The clarity completeness, balance, and ease of understanding of the financial statements	✓	✓	
<b>Review external financial reporting</b> - Review and discuss the external financial reporting (which term shall include management discussion and analysis, and the reports of the external auditor on the findings of their external audits and reviews) with management, including whether the reporting is consistent with the audit committee members' information and knowledge and whether it is adequate for shareholder needs. In conducting that review the audit committee shall consider the following:  (i) The underlying quality not just the acceptability, of the external financial reporting (ii) Changes in accounting policy and practice (iii) Any significant accounting estimates and judgements including enquiring of management as to the process used in making material estimates and judgements and then enquire of the external auditor the basis for their conclusions on the reasonableness of management's estimates (iv) Accounting implications of new and significant transactions	✓	✓	

<b>Responsibility</b>	<b>FEB</b>	<b>AUG</b>	<b>NOV</b>
(v) Compliance with NZ-GAAP and IFRS (vi) The annual certification of the CEO and the CFO to the board that: <ul style="list-style-type: none"> <li>• Vector's financial statements represent a true and fair view in all material respects of Vector's financial condition and operational results and are in accordance with applicable accounting standards</li> <li>• The above statement was based on a sound system of risk management and internal control and compliance which implements the policies adopted by the board</li> </ul>		✓	
<b>Assess fairness of financial statements</b> - Assess the fairness of financial statements prepared by Vector, and obtain explanations from management and the external auditors on whether: <ul style="list-style-type: none"> <li>(i) actual financial results varied significantly from budgeted or projected results</li> <li>(ii) Vector's financial and operating controls are functioning effectively</li> <li>(iii) all financial statements and announcements contain adequate and appropriate disclosures</li> </ul>		✓	
<b>Submit financial statements to the board</b> - Consider and approve for submission to the board both the draft interim (half yearly) and draft final (year end) financial statements including the notes thereto, and all other financial statements (if any) prepared by Vector (including Vector's quarterly reports and regulatory accounts) and advise the board whether they comply with the appropriate laws and regulations	✓	✓	
<b>Chairman's and CEO's reports</b> - Consider and approve for submission to the board the interim and final chairman's and CEO reports to shareholders	✓	✓	
<b>Audit fees report</b> - Prepare annual reports to shareholders and stakeholders on the amount of fees paid to auditors, which report shall differentiate between fees for audit and fees for individually identified non-audit work (i.e., separating each category of non-audit work (if any) undertaken by the auditors, and disclose the fee payable for this)		✓	
<b>Meeting with the external auditors</b> - Meet with the external auditors to discuss the practices and issues surrounding the external financial reporting	✓	✓	✓
<b>Information provided to regulatory bodies</b> - Establish a protocol by which the audit committee can have comfort that financial information provided to regulatory bodies is accurate and provided within the required time. (ongoing)			
<b>Forum</b> - Provide a formal forum for enhancing communication between the board, management and external audit (ongoing)			
<b>Culture</b> - Foster an ethical culture within Vector (ongoing)			
<b>Dialogue</b> - Ensure that there is full and frank dialogue among the audit committee, board, external auditors and management of Vector (ongoing)			
<b>External audit</b>			
<b>Audit planning</b> - The audit committee shall meet with the external auditors at the commencement of the planning phase of the audit so that areas of mutual interest and concern can be discussed. This should be limited to significant issues only. One aspect of specific consideration would be the levels of materiality to be adopted by the auditors in respect of Vector	✓		
<b>Level of audit fee</b> - The proposed level of the external audit fee shall be reviewed and an appropriate recommendation made to the main board for implementation under the authorisation pursuant to the resolution by shareholders at the annual meeting			✓

<b>Responsibility</b>	<b>FEB</b>	<b>AUG</b>	<b>NOV</b>
<b>Areas of accounting difficulty</b> - Should areas of major difficulty or controversy arise during the course of an audit, the audit committee shall be available to meet with the auditors and work towards an acceptable resolution. (ongoing)			
<b>Audit opinions</b> - At the time the audit committee considers final financial statements it shall consider the form and content of the audit opinion and confirm with the auditors that management has placed no restrictions on their audit approval		✓	
<b>Audit management letter</b> - At the time the final financial statements are considered the Audit committee shall receive and consider a report from the auditors on their annual audit including the audit management letter. Any significant issues raised by the auditors should be discussed with them		✓	
<b>Securities Act 1978, section 51(6)</b> – External audit review for Share Register			✓
<b>Audit appointment</b> -The audit committee shall also: (i) consider the independence of the external auditors (including reviewing the range of services provided by the auditors in the context of all consulting services bought by Vector) (ii) review the performance of the external auditors and (iii) make recommendations to the board regarding the reappointment of the external auditors.			✓  ✓
<b>Rotation</b> - While rotation of audit firms is not required, in considering appointment of the auditor, the audit committee shall ensure that the same audit partner does not lead Vector’s external audit for more than five consecutive years (i.e. lead audit partner should be rotated after a maximum of five years in that role and the engagement audit partner should be rotated after a maximum of five years in that role). Any significant issues raised by the auditors should be discussed with them. (ongoing)			✓
<b>Performance evaluation</b> - The audit committee shall progressively evaluate the performance of the external auditor during its term of appointment and the progress of the audit. The audit committee shall ensure the criteria for performance evaluation extend to the value delivered for shareholders and Vector under the audit plan, its cost-effectiveness and the maintenance of the highest standards of professional integrity, objectivity and independence.	✓	✓	
<b>Internal audit</b>			
The audit committee will receive and review regular reports from the Risk and Assurance Committee in respect of the internal audit practices and programmes, and will have unrestricted access to the internal auditors as it sees necessary	✓	✓	✓
<b>Finance</b>			
The audit committee may annually review Vector’s funding policies and practices and when appropriate approve and recommend to the board any changes to finance/funding arrangements, e.g. changes to promissory note facilities, new bond issues, bank arrangements.			✓
<b>General</b>			
The audit committee shall: (i) Undertake a regular review of Vector’s tax position, compliance and exposure (as required) (ii) Review Vector’s system for monitoring compliance with statutes and Vector’s policies as they relate to financial information (iii) Review the findings of any examinations by regulatory agencies			✓

<b>Responsibility</b>	<b>FEB</b>	<b>AUG</b>	<b>NOV</b>
(iv) Liaise with the board risk and assurance committee in considering risks of a financial nature, whether those matters have been referred to the Audit committee by the board, by the Risk and Assurance Committee, or raised by the audit committee itself			✓
(v) Confirmation of Annual Return, Statutory Registers & Substantial Security Holders Notices		✓	
(vi) Assess financial information posted on website			✓
(vii) Undertake such other directives that the board may set down from time to time (as required)			