



NZX: SPY
ASX: SMP

Smartpay Governance Principle 3 : Board Committees

The Board will use committees where this enhances its effectiveness in key areas while retaining Board responsibility.

Useful links/further information:

NZX Corporate Governance Code:
Principle 3

ASX Corporate Governance
Principles and Recommendations :
Principles 4 and 7

FMA Corporate Governance in New
Zealand Principles and Guidelines :
Principle 3

Smartpay reserves the right to
amend, update or withdraw its
corporate policies without prior
notice.

Audit and Finance Committee Terms of Reference

March 2019

Financial Reporting, compliance and risk management are key areas of Board Responsibility, the Board recognizes that committees add to the effectiveness of the board by being able to inject a more detailed analysis of key issues and promote efficient decision making. It has appointed two committees; the Audit and Finance Committee and the Remuneration and Appointments Committee. These committees meet and operate under the terms of reference which are reviewed and approved by the board annually.

The Terms of Reference of the Audit and Finance Committee are set out in this document.

Membership

The Board shall appoint members to the Committee and will review the membership whenever the Board membership changes. It will consist of at least three directors of the company, at least two of whom will be independent directors of the Company. The Board recognizes that both the ASX and NZX guidance recommends that the Audit Committee comprises only independent directors however given the size of the business and the Board, the Board believes that structuring the Committee to enable non independent directors to be members may be the most appropriate means for discharging its responsibilities and duties.

The Board will appoint one of the independent directors as chairman to the committee. One member of the Committee is required to have recent and relevant financial experience.

Secretary

The Secretary of the company will be the secretary for the committee.

Meetings

At least two days notice will be given of any meeting of the Committee.

Meetings shall be held at least four times a year coinciding with key dates in the Company's financial reporting cycle.

No one other than the audit committee members shall be entitled to attend audit committee meetings however the committee may invite others to attend including other directors, CEO, CFO, representatives of the external auditor and other persons.

A quorum of the committee shall be two members.
The external auditor may request a meeting if they consider that one is necessary.

Minutes of the meeting will be maintained by the Company Secretary and signed once approved by the chairman of the committee.

Responsibilities:

General

The Committee will establish an annual calendar of meetings identifying its work programme for the year. In addition to the responsibilities defined below it will consider other topics as defined by the board.

Financial reporting

To review, and challenge where necessary, the actions and judgments of management, in relation to the company's financial statements, operating and financial review, interim reports, preliminary announcements and related formal statements before submission to, and approval by, the Board and before clearance by the auditors. Particular attention paid to:

- Critical accounting policies and practices and any changes in them
- Decisions requiring a significant element of judgement
- The extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed
- The clarity of disclosures
- Significant adjustments resulting from the audit
- The going concern assumptions
- Compliance with accounting standards; and
- Compliance with stock exchange and other legal requirements

Financial Management

To review performance against goals and corrective actions including:

- Cash flows, liquidity
- Relative share price and dividend return
- Profits and profitability
- Key performance indicators (market shares, customer satisfaction, productivity, employee attitudes)
- Competitor/benchmark comparisons
- Ensure proper accounting records are maintained and the reliability of the financial information
- Establish and monitor the company's capital management strategy
- Assessing the Company's funding requirements and making recommendations to the Board concerning specific funding proposals
- Monitoring borrowings from financial institutions and compliance with borrowing covenants.

Internal control and risk management

- To review the company's procedures for detecting fraud and whistle blowing and ensure that arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or other matters;
- To review management's reports on the effectiveness of the systems for internal financial control, financial reporting and risk management
- To monitor the integrity of the company's internal financial controls to review the statement in the annual report and accounts and/or corporate governance statement on the company's internal controls and risk management framework

- Take a proactive approach to risk management. The Board is responsible for ensuring that risks, and opportunities, are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the board.
- Establish that the Company has systems in place to minimize the impact of financial and operational risk on its business and are appropriate to review compliance. To assess the scope and effectiveness of the processes established by management to identify, assess, manage and monitor both financial and non-financial risks. These systems involve a process to enable:
 - identification of significant risk;
 - monitoring financial risks and exposure from movements in interest rates and exchange rates
 - quantification of the risk impact;
 - development of risk mitigation strategies;
 - monitoring of compliance;
 - reviewing of systems and records to ensure ongoing integrity of the process.
 Management has the responsibility to institute and operate these systems. The Committee has an oversight and monitoring role.
- To consider annually whether there is a need to have an internal audit function
- To require and monitor legislative and regulatory compliance

External Audit

- To oversee the company's relations with the external auditor
- To consider, and make recommendations on the appointment, reappointment and removal of the external auditor
- To consider and make recommendation on the terms of engagement and the remuneration to be paid to the external auditor in respect of audit services provided.
- To assess the qualification, expertise and resources, effectiveness and independence of the external auditors annually, steps to consider include:
 - Seeking reassurance that the auditors and their staff have no conflict of interests arising in connection to the audit work for the company
 - Seeking from the audit firm on an annual basis information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding the rotation of audit partners and staff and appropriate succession planning to ensure continuity of service is maintained
 - Monitoring the external audit firms compliance with applicable ethical guidance relating to the rotation of audit partners, the level of fees that the company pays in proportion to the overall fee income of the firm, office and partner and other related regulatory requirements; and
 - Monitoring the company's policy (if any) for the employment of former employees of the external auditor
- To discuss with the external auditor, before the audit commences, the nature and scope of the audit.
- To review with the external auditor, the findings of its work, including any major issues that arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved; key accounting and audit judgements; levels of errors identified during the audit, obtaining explanations from management and, where necessary the external auditors, as to why certain errors might remain unadjusted;
- To review the audit representation letters before consideration by the Board, giving particular consideration to matters that relate to non-standard issues;
- To assess, at the end of the audit cycle, the effectiveness of the audit process by:
 - Reviewing whether the auditor has met the agreed audit plan and understanding the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks;

- Consideration of the robustness and perceptiveness of the auditors in their handling of key accounting and audit judgements identified and in responding to questions from the audit committee, and in their commentary , where appropriate, on the systems of internal control: and
- Obtaining feedback about the conduct of the audit from key people involved;
- To review and monitor the content of the external auditor’s management letter, in order to assess whether it is based on a good understanding of the company’s business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted on;
- To develop and recommend to the Board the company’s policy in relation to the provision of non audit services by the auditor and ensure that the provision of such services does not impair the external auditor’s independence or objectivity. In doing so, the audit committee should:
 - Consider whether the skills and experience of the audit firm make it a suitable supplier of the non-audit services;
 - Consider whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the external auditor;
 - Consider the nature of the non-audit services, the related fee levels individually and in aggregate relative to the audit fee;
 - Consider the criteria that govern the compensation of the individuals performing the audit; and
 - Set and apply a formal policy specifying the types of non-audit work, from which the external auditors are excluded; for which the external auditors can be engaged without reference to the Committee and for which a case by case decision is necessary.

Levels and Limits Of Authority

The Committee has no decision making authority unless specifically authorized by the Board and generally makes recommendations only to full board.

The committee is authorized by the board to:

- Investigate any activity within its terms of reference
- Seek any information that it required from any employee of the company and all employees are directed to co-operate with any request made by the Committee; and
- Obtain outside or independent professional advice. At the Company’s expense, and secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Reporting

The Secretary will circulate the minutes of the committee to all members of the Committee. The Chairman of the Committee will provide a report to the Board on the activities of the Committee which will be included in the Board Pack, together with the minutes of Committee Meetings, for each scheduled Board meeting.

The Committee will annually review its terms of reference and undergo an assessment of its performance and recommend to the Board any necessary changes.

The Audit Committee will review the Corporate Governance Statement for inclusion in the Annual Report and Financial Statements and in reference to its role and responsibilities will specifically ensure the inclusion of:

- A summary of the role of the audit committee
- The names and qualifications of all members of the Committee during the period
- The number of Committee meetings and attendance by each member
- The way the audit committee has discharged its responsibilities.

The Audit and Finance Committee Chairman shall attend the AGM and shall answer questions, through the Chairman of the Board, on the Committee's activities and its responsibilities.

**Terms of Reference authorised by the Board
March 2019**

A handwritten signature in black ink, appearing to read 'Matt Turnbull', is positioned above the printed name.

**Matt Turnbull
On behalf of the Board**