



AUDIT AND RISK COMMITTEE CHARTER

INTRODUCTION

The Board of Directors (Board) of Solution Dynamics Limited (the Company) has established a Committee known as the Audit and Risk Committee (Committee).

PURPOSE

The primary purpose of the Committee is to assist the Board in fulfilling its responsibilities in all matters related to risk management and the financial accounting and reporting of the Company. Due to the small scale of the Company and ability to access a wider range of skills, some items like Cyber Security, normally the preserve of the Committee, are considered to be more effectively dealt with by the full board.

The primary objectives of the Committee are to:

- consider as and when in the opinion of the Board, trading and circumstances warrant, the appointment of an internal auditor;
- assist the Board in fulfilling its responsibilities relating to the accounting and reporting practices of the Company;
- review the financial statements of the Company and advising the Board as to their compliance with applicable law;
- serve as an independent and objective party to review the financial information presented by Management for shareholders;
- oversee and appraise the audits conducted by the Company's external and internal auditors;
- recommend and implement a framework to ensure that the external auditors retain the appropriate level of independence from the Company and to ensure the ability of the auditors to undertake the audit;
- give proper consideration to the scope of non-audit work undertaken by the external auditor;
- maintain open lines of communication between the Board, external and internal auditors and Management to exchange views and information, as well as confirm their respective authorities and responsibilities; and
- monitor the Company's Risk Management Programme and risk management controls and where appropriate, make recommendations as to policy implementation.

The Committee in its relationship with the external and internal auditors will be upholding the interests of the Company's shareholders.

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For clarity, the responsibilities of the Committee will include, as a minimum, those required by Rule 2.13.3 of the NZX Listing Rules. Rule 2.13.3 provides:

2.13.3 The responsibilities of an Issuer's Audit Committee include as a minimum:

- a) ensuring processes are in place and monitoring those processes so that the Board is properly and regularly informed and updated on corporate financial matters;
- b) recommending the appointment and removal of the independent auditor;
- c) meeting regularly to monitor and review the independent and internal auditing practices;
- d) having direct communication with and unrestricted access to the independent and any internal auditors or accountants;
- e) reviewing the financial reports and advising all Directors whether they comply with the appropriate laws and regulations; and
- f) ensuring that the Key Audit Partner¹ is changed at least every five years.

COMPOSITION

The Committee is a committee of the Board.

The Committee is authorised by the Board to investigate any activity within its terms of reference as set out in this Charter.

The Committee has the authority to seek any information it requires from any officer or employee of the Company and from any adviser or consultant to the Company.

The Committee is authorised by the Board to take such independent professional advice as it considers necessary.

Notwithstanding the existence of the Committee, the external and internal auditors have direct access to the Committee chair and Board if required.

Unless otherwise directed by the Board, or identified in this Charter, the Committee will have no executive powers in regard to its findings and recommendations.

The Committee will make recommendations to the Board for its approval

MEMBERSHIP

The Committee will be appointed by the Board from amongst the non-executive Directors of the Company and shall consist of not less than three members, two of whom will be Independent Directors.

At all times, a majority of members on the Committee must be Independent.

The chair of the Committee will be an Independent Director, who is not the chair of the Board and is appointed by the Board. The chair of the Board must not be chair of the Committee.

The composition and performance of the Committee will be reviewed annually.

At least one member of the Committee must have a relevant accounting or financial background.

¹ has the meaning given in the definition section of the External Reporting Board's Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners (PES 1)

The Committee may co-opt any other Independent Director in the event that one of the Committee members is absent or unavailable.

Payment in addition to normal Board fees may be made to Committee members within the overall total Board fees as approved by the shareholders from time to time.

MEETINGS

A quorum of members of the Committee shall be a majority of members of the Committee.

The Committee will meet not less than four times a year. In addition, the Committee will hold such additional meetings as the chair deems necessary in order to fulfil its responsibilities.

The Company Secretary will act as secretary for the Committee and give reasonable notice of the meetings to all members of the Committee and other Directors of the Board.

The secretary of the Committee will be responsible for drafting and circulating Committee agendas and explanatory papers based on advice provided by the chair.

The secretary will record minutes of the Committee and circulate the minutes to all Directors.

Directors who are not members of the Committee and employees of the Company may only attend Committee meetings at the invitation of the Committee.

The external and internal auditors will attend meetings as requested by the chair. A meeting will be held, at least annually, with the external (and internal auditor – if one is appointed) without Management being present.

An indicative annual work plan will be drafted by the Committee and updated annually.

AUTHORITIES

The Committee does not have the authority to make a decision in the Board's name or on its behalf unless specifically authorised to do so by this Charter or as directed by the Board.

The Committee will make recommendations to the Board as set out in this Charter.

Directors have complete access to the Company's Management through the chair, CEO or CFO at any time.

Directors have complete access to the external (and if relevant internal) auditors, without Management present.

The Committee is authorised by the Board to obtain, at the expense of the Company, outside legal or other independent professional advice as it sees necessary in carrying out its responsibilities.

REPORTING

The secretary will ensure the Committee minutes are distributed with Board meeting papers for the next Board meeting following a meeting of the Committee.

After each Committee meeting the chair shall report the Committee's findings and recommendations to the Board.

The Company's CFO will be responsible for drawing to the Committee's immediate attention:

- any material matters which relate to the financial condition of the Company;
- any material breakdowns in internal controls;
- any material events of fraud or malpractice;
- any significant legislative non-compliance; and
- any changes in risk profile.

Any reporting of a matter requiring the Committee's immediate attention as outlined in the preceding paragraph must be accompanied with Management's proposed corrective actions.

The chair of the Committee is required to be present at the Company's annual meetings.

RESPONSIBILITIES

The responsibilities of the Committee will be those delegated by the Board from time to time and shall include (without limitation):

- FINANCIAL GOVERNANCE

- Reviewing and approving all significant accounting policy changes, ensuring they comply with New Zealand law (including Financial Reporting Act 2013) and relevant NZX Listing Rule requirements.
- Meeting with the external (and internal auditor – if one is appointed) to discuss practices and issues surrounding financial governance.
- Recommending to the Board the dividend policy for the Company and the dividends to be paid to shareholders.
- Monitoring the Company's debt and interest position and overall cash and treasury management.
- Monitoring the Company's tax position and areas of potential tax risk.
- Setting the principles and standards with respect to the reporting of related party transactions, and providing oversight of relevant external reporting and its compliance with regulatory requirements.
- Attending to any other matter relating to the financial affairs of the Company as would be appropriately dealt with by this Committee of the Board.

- EXTERNAL FINANCIAL REPORTING

- Reviewing and recommending to the Board for approval, the Company's half-year and annual financial statements, including whether the reporting is adequate for shareholder needs.
- Considering when conducting that review:
 - the underlying quality of the financial reporting as set out in the financial statements (including the notes to those financial statements);
 - changes in accounting policy and practice;

- any significant accounting estimates and judgments included in the financial statements;
- accounting implications of new and significant transactions;
- the appropriate treatment and classification of costs as between capital and revenue;
- Management practices and any significant disagreements between Management and the external auditors;
- the propriety of related party transactions; and
- the certification by the CEO and the CFO to the Board that the Company's financial reports represent a true and fair view in all material respects of the Company's financial position and operational results and are in accordance with relevant accounting standards, including that these certification statements are based on a comprehensive system of risk management and internal control and compliance procedures.

- **EXTERNAL AUDIT**

- Reviewing the external auditor's fees, terms of engagement and annual independence statement.
- Reviewing and approving the external audit plans and strategy. Evaluating the overall effectiveness of the external audit programme through regular meetings with the external auditors.
- Consulting with the auditors on any significant proposed regulatory, accounting or reporting issues and assessing the potential impact of such on the Company's financial reporting processes.
- Determining that no restrictions are being placed by Management upon the external auditors.
- Annually assessing and confirming to the Board the independence of the external auditor after consideration of the Company's Audit Independence Policy criteria including assessing whether the independence of the external audit process has been maintained in light of the performance of any non-audit services.
- Pre-approving all non-audit services provided by the external auditor in accordance with the Company's Audit Independence Policy.
- Pre-approving all audit services provided by firms other than the external auditor in accordance with the Company's Audit Independence Policy.
- Reviewing the external auditor's half-yearly statement of non-audit fees and monitoring the ratio of non-audit fees to audit fees

- **INTERNAL CONTROL ENVIRONMENT (AND INTERNAL AUDIT)**

- Monitoring the adequacy and effectiveness of the Company's internal control framework and environment including administrative, operating and accounting policies through active communication with operating Management, the external auditors (and internal auditor – if one is appointed), and monitoring Management's responses and actions to correct any noted deficiencies.
- Evaluating the Company's potential exposure to fraud.

- Recommending to the Board the delegation of authority levels and limits within the business.
- Recommending to the Board the appointment of an internal auditor.
- (If relevant):
 - Reviewing and approving internal audit programmes and plans, and evaluating the overall effectiveness of these through regular meetings with the internal auditor, including determining that no Management restrictions are being placed upon the internal auditor.
 - Receiving and reviewing a detailed summary of internal audit findings and the status of any corrective actions required.
- Reviewing on a six monthly basis (coinciding with the half-year and annual financial statements), an internal control opinion by the CEO and the CFO to the Board that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

- **RISK MANAGEMENT, COMPLIANCE AND INSURANCE**

- Ensuring that Management has established a risk management framework which includes policies and procedures to effectively identify, treat and monitor principal business risks.
- Reviewing on an annual basis, the Company's risk management programme and business continuity plans.
- Evaluating the effectiveness of the Company's risk management policies, practices and procedures.
- Reviewing, at least, on an annual basis, the Company's risk profile.
- Reviewing the Company's insurance covers and recommending the annual renewal of policies to the Board.
- Annually reviewing compliance with applicable laws, regulations, and standards through the Company's compliance frameworks.

- **GENERAL**

- Reviewing any regulatory reports submitted to the Company and monitoring Management's response to them.
- Receiving reports as appropriate, from the Company's auditors.
- Identifying and directing any special projects or investigations deemed necessary.
- Monitor ethical considerations and standard of corporate conduct in areas such as arms-length dealings with likely conflicts of interest.
- Establish a clear line of communication between the Committee and the CEO, the Manager responsible for the Company's accounting and operational functions, and the external (and any internal auditors).
- Review and update this Charter annually and submit to the Board for endorsement.
- Report Committee actions to the Board with such recommendations as the Committee may deem appropriate.
- Prepare a statement for inclusion in the annual report that describes the Committee's composition and responsibilities and how they were discharged.

- The Committee will perform such other functions as required by law, NZX Listing Rules or the Board.

REVIEW OF CHARTER

This Charter and the Committee's performance as against this Charter, will be reviewed annually by the Board.

AUTHORISATION AND REVIEW

This Charter has been approved by the Board on 21 July 2022