

AUDIT AND RISK COMMITTEE CHARTER

1. Standing Rules for Board Committees

- 1.1 Standing Rules for Board Committees apply to the Committee, and are incorporated into this Charter. Where there is a conflict between a provision of the Standing Rules for Board Committees and this Charter, then the provision set out in this Charter shall prevail to the extent of the conflict.

2. Purpose

- 2.1 The Committee is established by the Board.
- 2.2 This Charter sets out the responsibility delegated by the Board to the Committee and the membership, responsibilities, authority and operation of the Committee.
- 2.3 The role of the Committee is to assist the Board in fulfilling its responsibilities in overseeing:
- (a) the Company's corporate reporting process (including, but not limited to, the appointment or removal of the external auditor and the rotation of the audit engagement partner); and
 - (b) the Group's systems of internal control and its risk management framework.

3. Responsibilities of the Committee

The main responsibilities of the Committee include:

3.1 Integrity of financial statements and reporting

- 3.1.1 reviewing and making recommendations to the Board in relation to:
- (a) the adequacy of the Group's reporting processes and internal control framework, including:
 - (1) the appropriateness, integrity and reliability of accounting policies, financial reporting and disclosure practices;
 - (2) monitoring compliance with applicable accounting standards and any other requirements relating to the preparation and presentation of financial results;
 - (b) whether the Group's financial statements reflect the understanding of the Committee members of, and otherwise provide a true and fair view of, the financial position and performance of the Group;
 - (c) the appropriateness of the accounting judgements or choices exercised by management in preparing the Group's financial statements, including assisting the Board to review:
 - (1) compliance with accounting standards and critical accounting policies and any proposed changes to such policies with the external auditor and management; and
 - (2) financial reports and any recommendations to the Board for adoption, in the light of the certifications provided by the Chief Executive Officer and the Chief Financial Officer on annual and half-yearly financial reports pursuant to the *Corporations Act 2001* (Cth) (and other regulatory requirements as applicable), and reviewing the processes that were used to reach the opinion provided in the certifications;
- 3.1.2 assisting the Board to review the form of opinion that the external auditor proposes to render;

3.2 Engagement with external auditors

3.2.1 reviewing and making recommendations to the Board in relation to:

- (a) the appointment, re-appointment and removal of external auditors;
- (b) the fees payable to the external auditor for audit and non-audit work;
- (c) rotation of the audit engagement partner;
- (d) the scope and adequacy of the external audit, including:
 - (1) reviewing and assessing the planned audit scope;
 - (2) evaluating how the auditor will consider controls relevant to the preparation and fair presentation of the financial report; and
 - (3) considering and reviewing reports, and any relevant written communication between the external auditor and management;
- (e) independence and performance of the external auditor, including:
 - (1) reviewing and providing oversight of audit reports prepared and issued by the external auditor on the financial statements and activities of the Group;
 - (2) assessing and monitoring the performance and effectiveness of the Group's external auditors, including an assessment of auditor independence in accordance with regulatory requirements;
 - (3) periodically meeting with the external auditor without the presence of management, to discuss the quality of the Group's accounting principles, material judgements, and any other matters that the Committee or external auditors consider appropriate;
 - (4) reviewing, and if necessary, resolve any disagreements between the external auditor and management regarding the financial reporting of the Group;
 - (5) any proposal for the external auditor to provide non-audit services and whether it might compromise the independence of the external auditor; and
 - (6) obtaining an independence declaration from each external auditor, as required;

3.2.2 reviewing and approving the arrangements for co-ordination between the external auditor and Internal Audit;

3.3 Internal Audit

3.3.1 reviewing and making recommendations to the Board in relation to:

- (a) the appointment or removal of the head of Internal Audit;
- (b) the scope and adequacy of the Internal Audit work plan, including:
 - (1) reviewing the annual budget of Internal Audit;
 - (2) reviewing assessments by Internal Audit of the effectiveness of internal controls and procedures;
 - (3) meeting regularly with Internal Audit;
- (c) the independence, objectivity and performance of the Internal Audit function, including:
 - (1) reviewing the performance of the head of Internal Audit;
 - (2) reviewing the activities, staffing and organisational structure of the Internal Audit function;

- (3) receiving from Internal Audit summaries of significant reports to management prepared by Internal Audit, the management response, and recommendations of Internal Audit;
- (4) meeting regularly with Internal Audit, in the absence of other management;
- (5) the Committee Chairperson meeting privately with the head of Internal Audit;

3.4 Risk management

- 3.4.1 monitoring management's performance against the Group's risk management framework, including whether it is within the risk appetite set by the Board;
- 3.4.2 reviewing any material incident involving fraud or a break-down of the Group's risk controls and the "lessons learned";
- 3.4.3 receiving reports from Internal Audit on its reviews of the adequacy of the Group's processes for managing risk;
- 3.4.4 receiving reports from management concerning:
 - (a) new and emerging sources of risk, legislative or regulatory initiatives and changes, organisational change and major initiatives, and the risk controls and mitigation measures that management has put in place to deal with those risks;
 - (b) credit, market, balance sheet, operational and reputational risks and assessing the effect of those risks on the Group;
 - (c) changes anticipated by management to the economic, business and regulatory environment and other factors considered relevant to future strategy and capital requirements of the Group in order to assess and evaluate the strategy of the Group;
 - (d) any proposed resolution of significant risk exposures and risk events, in order to monitor those exposures and events and, if thought fit by the Committee, approve the proposed resolution;
 - (e) compliance by the Company with applicable external obligations and significant internal policies relating to the operation of the business of the Group;
- 3.4.5 in relation to insurance:
 - (a) overseeing the Group's insurance program, having regard to the Group's businesses and the insurable risks associated with its businesses;
 - (b) receiving reports from management concerning the insurance strategy of the Group, including the coverage and limits of the insurance policies managed at the levels of the Company (including Directors' and Officers' Liability insurance), in order to monitor that coverage and limits and, if thought fit by the Committee, approve or vary that strategy or those policies, at least annually;
- 3.4.6 reviewing the Group's risk management framework at least annually to satisfy itself that the risk management framework continues to be sound and that the Group is operating with due regard to the risk appetite set by the Board and, where appropriate, making recommendations to the Board regarding any changes;

3.5 Other areas of responsibility

- 3.5.1 assisting the Board to review the effectiveness of the process of management for informing employees of the existence of the Whistleblower Policy, Code of Conduct and Anti-Bribery and Corruption Policy, and other risk management policies;

- 3.5.2 assisting the Board to ensure Employees can make confidential, anonymous submissions, and the procedures for the receipt, retention and treatment of any concerns regarding accounting, internal accounting controls or auditing matters are established and maintained;
- 3.5.3 assisting the Board to review minutes of any other material audit committees (as the Committee determines) within the Group and respond to issues raised as deemed appropriate by the Committee; and
- 3.5.4 performing any other duty or undertaking that the Board may request from time to time.

4. Power of the Committee

To the extent permitted by law, the Committee is authorised to:

- (a) obtain information the Committee requires from management, any employee of the Group, the internal auditor or external auditor or any other external party including, but not limited to, conducting interviews of the relevant persons (without or without management present;
- (b) require unrestricted access to Internal Audit and to external auditors in order to fulfil the purpose and undertake the duties of the Committee;
- (c) investigate any matter brought to the attention of the Committee with unrestricted access to all books, records, premises and employees of the Group and the authority to engage independent counsel and other advisers as the Committee determines necessary to carry out the duties of the Committee, and all other matters that may be delegated by the Board to the Committee from time to time;
- (d) seek advice from external consultants or specialists where the Committee considers that necessary or appropriate at the expense of Company;
- (e) deal with, and where applicable, resolve, determine finally and approve, all matters falling within the scope of the purpose and duties of the Committee as set out in this Charter and all other matters that may be delegated by the Board to the Committee from time to time;
- (f) sub-delegate the powers and discretions of the Committee to executives of the Company or controlled entities of the Group, with or without power to delegate further;
- (g) carry out, and make recommendations to the Board in relation to, its areas of responsibility set out in this Charter; and
- (h) make recommendations to the Board regarding amendments to this Charter.

5. Structure and Composition of the Committee

- 5.1 The Committee will comprise of:
 - (a) at least three (3) members;
 - (b) only non-executive directors;
 - (c) a majority of independent directors; and
 - (d) an independent non-executive chairperson, who is not the Chairman.
- 5.2 In addition to any criteria set out in the Board Charter, the following rules apply to the eligibility for membership of the Committee:
 - (a) each member of the Committee must be appropriately financially literate (as such qualification is interpreted by the Board in the business judgment of the Board);
 - (b) as between the Committee members, the members should have the necessary technical knowledge, including accounting and financial expertise, and sufficient understanding of the

industries in which the Group operates to be able to discharge the Committee's mandate effectively; and

- (c) at least one member of the Committee must have financial expertise with substantial experience as a public accountant or auditor.

6. Operation of the Committee

Frequency of meetings

- 6.1 The Committee will meet at least four (4) times annually, and more frequently if the Committee deems necessary.

Notice of meeting

- 6.2 Any member of the Committee, the Chief Financial Officer, or the external auditor of the Company may request the Committee Chairperson to convene a meeting of the Committee at any time.
- 6.3 A notice of each meeting confirming the date, time, venue and agenda will be forwarded to each Committee member as soon as practicable prior to the meeting date.

Quorum for meetings

- 6.4 The minimum quorum for a Committee meeting is three (3) non-executive director Committee members.

Meetings

- 6.5 Committee members will not participate in discussions and will not vote on any issues in respect of which there is an actual or perceived conflict of interest.
- 6.6 Non-Committee members such as executive directors or management representatives and/or external parties who the Committee Chairperson and Committee members think fit, may be invited to attend all or part of a Committee meeting but should not participate if they have an interest in the matter under consideration.
- 6.7 The Committee or the Committee Chairperson will convene privately (without management in attendance) in separate sessions with the head of Internal Audit, Chief Financial Officer, Chief Risk Officer and external auditor of the Company at least annually.
- 6.8 The Committee will request the external auditor to advise the Committee whether any officer of the Group attempted, in the opinion of the external auditor, to improperly influence or mislead any member of the external audit team.

Definitions

Where used in this document, the following terms or expressions shall have the following meanings:

ASX means ASX Limited ACN 008 624 691 or the exchanges operated by it.

Board means the board of directors of the Company.

Chairman means the chairman of the Board.

Charter means this charter of the Committee.

Chief Executive Officer means the chief executive officer of the Company.

Chief Financial Officer means the chief financial officer of the Company.

Committee means the Audit and Risk Committee, a sub-committee of the Board.

Committee Chairperson means the chairperson of the Committee.

Company means Harvey Norman Holdings Limited ACN 003 237 545.

Director means each director, executive and non-executive, of the Company.

Employee includes each Director, Executive, employee of, or contractor to the Group.

Executive means each person who holds a position which makes that person an "*officer*" of the Company, as that term is defined in the *Corporations Act* 2001 (Cth).

Group means the Company and controlled entities of the Company.

Internal Audit includes all personnel and resources of the Company engaged in the internal audit function of the Company.

Risk means the effect of uncertainty on objectives, including threat and opportunity.

Policy Owner	Audit and Risk Committee
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