

**Hotel Property Investments Limited**

**Audit and Risk Management Committee Charter**

May 2019

## TABLE OF CONTENTS

Page no.

<b>1</b>	<b>Purpose .....</b>	
<b>2</b>	<b>Duties and Responsibilities - Audit.....</b>	<b>3</b>
2.1	Cooperation with the Responsible Entity .....	3
2.2	Financial Reporting.....	3
2.3	Assessment of Systems of Financial Risk Management and Internal Control.....	4
2.4	External Audit .....	4
2.5	Independence of the External Auditor and Provision of Non-audit Services.....	4
<b>3</b>	<b>Duties and Responsibilities - Risk Profile .....</b>	<b>5</b>
3.1	Financial Reporting.....	5
3.2	Effectiveness of the Risk Management Framework.....	5
<b>4</b>	<b>Membership and structure .....</b>	<b>6</b>
<b>5</b>	<b>Administrative Matters.....</b>	<b>6</b>
5.1	Meetings .....	6
5.2	Voting .....	7
5.3	Minutes.....	7
5.4	Reporting.....	7
5.5	Authority and Access.....	7
<b>6</b>	<b>Review .....</b>	<b>8</b>
	<b>SCHEDULE 1 - EXTERNAL AUDITOR INDEPENDENCE POLICY .....</b>	<b>9</b>
1	Audit Services.....	9
2	Prohibited Services.....	9
3	Non-Audit Services and Pre-Approval.....	10
4	Reporting to Committee.....	10

## 1 Purpose

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- 1.1 The audit and risk management committee ("**Committee**") is a committee of the board of directors ("**Board**") of Hotel Property Investments Limited ("**Company**").
- 1.2 The purpose of the Committee is to assist the Board in fulfilling its corporate governance and oversight responsibilities relating to:
- (a) The integrity of the Company's financial reporting;
  - (b) The effectiveness of the Company's systems of financial risk management and internal control;
  - (c) The external audit functions;
  - (d) the Company's risk profile and risk policy; and
  - (e) The effectiveness of the Company's risk management framework and supporting risk management systems.
- 1.3 The duties and responsibilities of the Committee to fulfil this purpose are described in section 2.

## 2 Duties and Responsibilities - Audit

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### 2.1 Cooperation with the Responsible Entity

- (a) The Company, in its personal capacity and as responsible entity of the Hotel Property Investments Trust ARSN 166 484 377 (" **Trust**"), agreed to a stapling arrangement in relation to the shares in the Company being stapled to the units in the Trust and listed on the ASX, being quoted together as a single stapled security.
- (b) While the stapling arrangements are in force, the Company must ensure that the primary form of financial reporting for the Company and the Trust is in the form of consolidated financial statements for the stapled group.
- (c) The Committee will have regard to matters affecting the Trust when carrying out its duties and responsibilities under this Charter.

### 2.2 Financial Reporting

The Committee shall:

- (a) Review with management and the external auditors, the financial statements to be released to securityholders.
- (b) Ensure that all financial statements released to securityholders, lenders, or any regulatory body comply with accounting standards, are true and fair, and are not misleading.
- (c) Ensure that FS71 requirements of the AFSL are satisfied.
- (d) Require each person who performs a chief executive officer function or a chief financial officer function (as those terms are used in section 295A of the *Corporations Act 2001* (Cth) ("**Act**")), as appropriate, to give the Board a declaration for the purpose section 295A(2) of the Act.
- (e) Require management to inform the Committee as to:
  - (i) the compliance with current Australian Accounting Standards and other regulatory requirements;
  - (ii) changes in accounting policies during the period; and

- (iii) outline methods used in accounting for specific transactions where there is no definitive accounting standard.
- (f) Require external auditors to inform the Committee of their views in relation to the above.
- (g) Review management's representations in respect of the accounts and make recommendations to the Board in connection with adoption of the accounts.

### **2.3 Assessment of Systems of Financial Risk Management and Internal Control**

- (a) Discuss with management and the external auditor the Company's accounting and financial controls, including the policies and procedures to assess, monitor and supervise financial risk, business risk, legal and ethical compliance programs for the purpose of forming a view as to the effectiveness of these controls, policies, procedures and programs.
- (b) Discuss with management and the external auditor the Company's accounting policies and methods for the purpose of forming a view as to the appropriateness (as opposed to the acceptability) and objectivity of these policies and methods.
- (c) Review all reports produced by the external auditor and management's response to the matters raised therein and become satisfied that accounting records are properly maintained in accordance with statutory requirements.
- (d) Obtain reports from time to time from the external auditor on the critical policies and practices of the Company and on all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management.
- (e) Make any recommendations to the Board, as appropriate, in connection with the items listed in (a) to (d) above.
- (f) Make recommendations for the appointment or, if necessary, dismissal of the head of internal audit, if an internal auditor is appointed.
- (g) Review all related party transactions involving the Company.

### **2.4 External Audit**

- (a) Recommend to the Board the appointment and remuneration (and, where appropriate, replacement) of the external auditor and the terms of their engagement.
- (b) Agree with the external auditor the overall scope of the external audit, including identified risk areas and any additional procedures considered necessary.
- (c) Review external audit plans and progress reports prepared by the external auditor and determine whether all matters raised are receiving appropriate attention.
- (d) Monitor and periodically evaluate the effectiveness of the external auditor.

### **2.5 Independence of the External Auditor and Provision of Non-audit Services**

- (a) Periodically (at least once per annum) assess the independence of the external auditor by considering the relationships and services provided by the external auditor that may lead to an actual or perceived lack of independence.
- (b) Require the external auditor to confirm in writing that they have complied with all professional and regulatory requirements relating to auditor independence prior to the completion of each year's accounts. The report will also delineate all relationships between the external auditor and the Company and describe the external auditor's internal quality control procedures. The report is an addition to any other declaration that the external auditor must provide pursuant to the Act.

- (c) Approve and review the External Auditor Independence Policy (Schedule 1) and monitor compliance with that policy.
- (d) Recommend to the Board the appropriate disclosure in each year's accounts of the full details of fees paid to the external auditor, including an analysis of non-audit services, and provide written advice to the Board as to whether the provision of non-audit services by the external auditor is compatible with the general standard of independence for auditors imposed by the Act, and has not compromised that independence, together with reasons upon which that advice is based.
- (e) Require that the lead external audit engagement partner be rotated every five years or more frequently if the Committee considers it desirable to maintain the external auditor's independence.
- (f) Require, in addition to normal recruitment due diligence processes, that the appointment of any present or former employee of the external auditor to a senior position within the Company be approved in advance by the Chairman of the Committee.

### **3 Duties and Responsibilities - Risk Profile**

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#### **3.1 Financial Reporting**

- (a) Review the Company's assessment of material risks and form an opinion on the adequacy and effectiveness of the risk assessment.
- (b) Consider the effectiveness of the Company's internal controls, and relevant reports from any audit process.
- (c) Review the Company's risk profile as developed by management and monitor emerging risks and changes in the Company's risk profile.
- (d) Report any material changes in risk profile to the Board.
- (e) Where the Committee identifies opportunities to create value by taking on further or different risks, make recommendations to the Board on the strategies that could be undertaken to capitalise on the identified opportunities.

#### **3.2 Effectiveness of the Risk Management Framework**

- (a) Having regard to the information received from the senior management of the Company, review, recommend to the Board, and oversee the operation of, risk management policies and procedures, so that there is, amongst other things:
  - (i) A procedure for identifying risks relevant to the Company's business and controlling their impacts on the Company;
  - (ii) An adequate system of internal control, risk management and safeguarding of assets;
  - (iii) A system of reporting and investigating breaches of risk management policies and procedures;
  - (iv) A review of internal control systems and the operational effectiveness of risk management policies and procedures;
  - (v) A culture of risk management and compliance throughout the Company; and
  - (vi) Adequate resources to support the risk management function and enable proper remedial action to be taken to address areas of weakness.
- (b) Review and monitor the risk management performance of the Company, including conducting specific investigations where necessary.

- (c) Assess the effectiveness of assurance activities and review assurance reports.
- (d) Evaluate the structure and adequacy of the Company's insurances.
- (e) Recommend to the Board any corrective action resulting from its review and assessment.

## **4 Membership and structure**

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- 4.1 The Board shall appoint the Committee from time to time and review the composition of the Committee annually.
- 4.2 The Committee shall consist of at least three members, with all being non-executive Directors.
- 4.3 The Committee shall comprise a majority of independent Directors.
- 4.4 Each member will be financially literate (that is, able to read and understand financial statements), have familiarity with financial management and an understanding of the industries in which the Company operates. At least one member will have relevant qualifications and experience (that is, a qualified accountant or other finance professional with experience of financial and accounting matters) and some members should have an understanding of the property industry.
- 4.5 A designated senior manager of the Company, the external auditor and other management as required, will normally attend all Committee meetings.
- 4.6 The Board will appoint one of the members of the Committee as chairman, who should not be chairman of the Board. The Chairman must be an independent non-executive director. It is the responsibility of the Chairman to schedule all meetings of the Committee and, to provide the Committee with a written agenda.
- 4.7 A designated senior manager of the Company or such other person as is appointed by the Committee will act as secretary of Committee meetings and will circulate minutes of the meeting.
- 4.8 If a member ceases to be a director of the Board of the Company, that member ceases to be a member of the Committee.

## **5 Administrative Matters**

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### **5.1 Meetings**

- (a) Any member of the Committee may call a meeting of the Committee.
- (b) The Committee will meet at least four times per annum, preferably once in each calendar quarter.
- (c) Additional Committee meetings may be convened as the Chair of the Committee considers necessary, taking into account requests from any member, the senior management of the Company or the external auditor.
- (d) Committee meetings may be held or participated in by conference call or similar means, and decisions may be made by circular or written resolution. A circular or written resolution signed by a majority of all members will be effective as a resolution duly passed at a Committee meeting and may consist of several documents in like form, each signed by one or more members. The expression "written" includes fax or other electronic means.
- (e) A quorum of the Committee will comprise any two members.

- (f) If the Chairman of the Committee is unable to attend a Committee meeting, the Chairman, or the members present, will appoint another member who is an independent Director to act as Chairman at that meeting. However, all members are expected to participate in all Committee meetings.
- (g) While the stapling arrangements are in force, a representative of the Responsible Entity will attend meetings of the Committee as an observer.
- (h) All Directors who are not members of the Committee are entitled to attend any meeting of the Committee.
- (i) The Committee may invite any key executive or other individuals to attend meetings of the Committee, as they consider appropriate.
- (j) At each Committee meeting the external auditor will meet in private with the Committee without management.

## **5.2 Voting**

- (a) Each member shall have one vote.
- (b) The Chairman of the Committee will not have a second or casting vote.

## **5.3 Minutes**

- (a) Minutes of Committee meetings will be prepared by the Secretary, approved by the Chairman of the Committee in draft and circulated to all members.
- (b) Minutes of any private sessions of the Committee (for example, with the external auditor and without management) will be prepared, approved by the Chairman of the Committee in draft and circulated to all members.
- (c) The minutes of a Committee meeting and of any private session will be confirmed at the next Committee meeting and then signed by the Chairman of the Committee.

## **5.4 Reporting**

- (a) The minutes of each Committee meeting will be included in the papers for the next Board meeting after the Committee meeting.
- (b) The Chairman of the Committee will, if requested at the next Board meeting after a Committee meeting, provide a brief oral report as to any material matters arising out of the Committee meeting. All directors may, within the Board meeting, request information of members of the Committee.

## **5.5 Authority and Access**

- (a) Except where expressly stated in this Charter, the Committee discharges its responsibilities by making recommendations to the Board.
- (b) The Committee may engage separate independent counsel or advisors at the expense of the Company, in appropriate circumstances, with the approval of the Chairman or by resolution of the Board.
- (c) The Committee will have unrestricted access to management and rights to seek explanations and additional information from management. The Committee will also have unrestricted access to the external auditor (with or without the presence of management, at the Committee's discretion).
- (d) The Committee has authority to conduct or direct investigations into any matters within its Charter. The Committee is entitled to obtain external, independent legal or professional advice as considered necessary or desirable by the Committee to assist it in any investigation or to carry out its duties. As appropriate, the Committee will inform the Chairman of the Board of the Company of its decision to authorise such an investigation or obtain such external advice.

## **6 Review**

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- 6.1 The Committee will, on a yearly basis, undertake an evaluation of its performance and effectiveness, review its membership and this Charter and make recommendations to the Board.
- 6.2 The Committee will consider and review the report of the Committee's membership, authority, responsibilities and discharge of those responsibilities for inclusion in Company's annual report and oversee the preparation of any report or other disclosures to be included in the annual report or other communications to security holders relating to the external auditor and to risk and risk management.

## **SCHEDULE 1 - EXTERNAL AUDITOR INDEPENDENCE POLICY**

This External Auditor Independence Policy (“**Policy**”) is intended to support the independence of the external auditor by regulating the provision of services by the external auditor. The external auditor will not be engaged to perform any service that may impair or be perceived to impair the external auditor’s judgement or independence.

This Policy is to be interpreted in light of the specific requirements of the Corporations Act 2001 (Cth) and should be read in conjunction with the charter of the audit and risk management committee (“**Committee**”) (“**Charter**”).

### **1 Audit Services**

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The external audit engagement encompasses the external audit of the AFSL on an annual basis, the external auditor's review of the half-yearly financial statements and the audit of the annual financial statements. The audits are in accordance with annual external audit plans and the terms of engagement annually approved by the Committee pursuant to the Charter. Any services included in, or necessarily incidental to, the terms of that engagement are to be regulated as Audit Services.

### **2 Prohibited Services**

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The external auditor must not provide services that are in conflict with the external auditor's role as statutory auditor or that would otherwise impair or be perceived to impair the external auditor's independence. Generally, these services include services where the external auditor:

- (a) Participates in activities that are normally undertaken by management;
- (b) Is remunerated through a "success fee" structure;
- (c) Acts in an advocacy role for the Company; or
- (d) May be required to audit or express an opinion on its own work.

Examples of services that may not be performed by the external auditor include:

- (a) Management consulting;
- (b) IT systems design or implementation;
- (c) Valuation services (except where related solely to tax affairs);
- (d) Bookkeeping, accounting and payroll services;
- (e) Broker, dealer or investment advisory services;
- (f) Litigation or legal advocacy services;
- (g) Recruitment and human resource services;
- (h) Internal audit services;
- (i) Actuarial services;
- (j) Acquisition valuations or valuations for purchase price allocations;
- (k) Fairness opinions; and
- (l) Preparation of sale documentation.

### **3 Non-Audit Services and Pre-Approval**

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The external auditor will be permitted to provide non-audit services that are not perceived to be in conflict with the role of auditor. Examples of services that may be provided without Committee approval:

- (a) Tax compliance services;
- (b) Advice on application of appropriate accounting standards;
- (c) Audits or verification of regulatory returns; and
- (d) Other compliance-type activities.

Based on recommendations from management, the Chairman of the Committee may also approve performance of non-audit services by the external auditor, where such services require a detailed knowledge of the Company's activities in order to decrease costs and maximize output efficiencies.

This consultation process will occur where the individual service is estimated to cost in excess of \$50,000: or where the annual fees for all non-audit services exceed, or are likely to exceed 100% of the auditors annual audit fees.

The Chairman of the Committee will also consult with other members of the Committee, the external auditor, and management as appropriate. Examples of such services are:

- (a) Strategic tax advice;
- (b) Due diligence on potential acquisition/investments;
- (c) Investigating accounting assignments; and
- (d) Corporate finance advice (deal structuring and execution).

A report will be given at each Committee Meeting of the services approved since the last meeting.

### **4 Reporting to Committee**

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A designated senior manager of the Company will provide a report (verbal or written) to the Committee at each meeting which describes any non-audit services approved by the Chief Financial Officer of the Company (and endorsed by the Chair of the Committee) or approved by the Chair of the Committee since the last Committee meeting.