

AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED

AUDIT AND RISK COMMITTEE CHARTER

1 Objectives

1.1 Purpose

The Audit and Risk Committee (Committee) will assist the Board to meet its oversight responsibilities in relation to the Company's financial reporting, internal control structure, risk management procedures and the internal and external audit functions.

The Committee will primarily fulfil these responsibilities by carrying out the activities outlined in this Charter.

2 Composition

2.1 Membership

The Committee shall be comprised of three non-executive Directors as determined by the Board. Each member must be an independent director and free from any business or other relationship that, in the opinion of the Board, would materially interfere with the exercise of his or her independent judgement as a member of the Committee.

The Chairman of the Committee will be an independent non-executive Director of the Company.

All members of the Committee shall have a working familiarity with basic finance and accounting practices, and at least one member of the Committee shall have audit committee financial expertise.

The Chairman of the Board may attend meetings, *ex officio*.

The Managing Director, the Chief Financial Officer, the Group Financial Controller, Company Secretary or his or her nominee (acting as meeting Secretary), the internal auditor or representative(s) of the internal auditors and representative(s) of the external auditor may attend meetings by invitation. Other Directors of the Board are entitled to attend Committee meetings and copies of the papers will be sent to other Directors at the same time as Committee members.

3 Meetings

3.1 Number of Meetings

The Committee will hold four meetings a year (two of which will involve reviewing the half year and annual accounts) and such additional meetings as the Chairman of the Committee shall decide in order for the Committee to fulfil its duties.

A quorum of the Committee will be two members.

The Chairman will promptly call a meeting of the Committee if so requested by any Committee member, the Chief Financial Officer, or the external auditor.

As part of its role to foster open communication, the Committee will meet regularly with Management, the internal auditor and the external auditor to discuss any matters the Committee or, each of these groups believe should be discussed.

3.2 *Secretarial*

The Secretary of the Committee will be the Group Secretary or their designated representative. The agenda and supporting documentation will be circulated to the Committee members within a reasonable period in advance of each meeting. The Secretary of the Committee will circulate minutes of meetings to members of the Committee and the Board.

The Committee may adopt such rules and regulations as it deems appropriate for the conduct of its affairs, provided only that they are not inconsistent with the API constitution, this Charter or any resolution of the Board.

4 **Responsibilities and Duties**

The Committee shall consider any matters relating to the financial affairs of the Company and its controlled entities and to the external audit that it considers necessary. In addition, the Committee shall examine any other matters referred to it by the Board.

The duties of the Committee are as follows.

4.1 *Financial Statements*

The Committee will:

- Keep under review the consistency of accounting policies both on a year to year basis and across the Company and the API Group; and
- Review and test, where necessary, the Company's financial statements taking into account:
 - Critical accounting policies and practices and any changes in them;
 - Decisions requiring a major element of judgement by management;
 - The extent to which the financial statements are affected by any unusual transactions;
 - The clarity of disclosures;
 - Significant adjustments resulting from the audit;
 - The going concern assumption;
 - Compliance with accounting standards;
 - Compliance with stock exchange and other legal requirements; and
 - The Managing Director and the Chief Financial Officer statements to the Board made pursuant to the requirements of the Company's internal control policies and relevant law and practice.
- Consider the appropriateness of the API Group's accounting policies and principles and any changes, as well as the methods of applying them, ensuring that they are in accordance with the stated financial reporting framework. This task will be performed via consultation with management followed by requesting the external auditor's opinion on the same.
- Assess significant estimates and judgements in financial reports by enquiring of management about 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.
- Review management's processes for ensuring and monitoring compliance with laws, regulations and other requirements (including Australian Accounting Standards, the Corporations Act 2001 and the ASX listing rules) relating to the external reporting by the entity of financial and non-financial information.
- Assess information from the external auditor that affects the quality of financial reports (eg. actual and potential material audit adjustments, financial report disclosures, non-compliance with the laws and regulations, internal control issues).

- Review documents and reports to regulators and make recommendations to the Board on their approval or amendment.
- Assess the disclosure of non-financial information in documents (both public and internal) to ensure the information is consistent with the financial statements and other documents and assess internal control systems covering information releases that have the potential to adversely reflect on the entity's conduct.
- Review for completeness and accuracy the reporting of the entity's main corporate governance practices as required under the ASX listing rules.
- Recommend to the Board whether the financial and non-financial statements should be signed based on the Committee's assessment of them.

4.2 *External Audit*

The Committee will;

- Recommend to the Board the selection and termination of the external auditor, subject to shareholder ratification, considering independence and effectiveness of the external audit and approve the fees and other compensation to be paid to the external auditor.
- Review and discuss quarterly with the external auditor all significant relationships the external auditor has with the API Group to provide reasonable assurance to the Board that the external auditor's independence is maintained, including any assurances required for compliance with the Corporations Act.
- Direct that the external auditor reports directly to the Committee or the Board.
- Discuss with the external auditor matters relating to the conduct of the audit including any difficulties encountered in the course of the audit work, any restrictions on scope of activities or access to requested information, significant disagreements with management (if any) and adequacy of management's response.
- Approve all permitted non-audit services to be performed for the API Group by the external auditor. The Committee may delegate authority to a sub-committee consisting of one or more members of the Committee where appropriate, including the authority to approve permitted, non-audit services by the external auditor provided that the decisions of the sub-committee are presented to the full Committee at the next meeting of the Committee.
- Review the performance of the external auditor. Obtain and review a report from the external auditor at least annually on the auditor's internal quality control procedures, and the quality and capabilities of the lead engagement staff.
- Periodically consult with the external auditor without the presence of management, about internal controls over financial information, reporting and disclosure and the fullness and accuracy of the API Group's financial statements.
- Review annually the API Group's policy on maintaining the independence of the external auditor and recommend any policy changes to the Board.

4.3 *Internal Audit*

The Committee will:

- Approve the appointment of the internal auditor (if appointed) or the Audit and Business Risk Manager. Any appointments or terminations should, where practicable, be considered first by the Committee and approved by the Managing Director;
- Approve the terms of reference of the Audit and Business Risk Manager, and review the planned programme of audits and the reasons given for any change or delay in the programme; and

- Review promptly reports on the Company from the internal auditor and the Audit and Business Risk Manager.

The Audit and Business Risk Manager will be given the right of direct access to the Chairman of the Committee.

4.4 *Internal Control Risk Management*

The Committee will:

- Assess the internal processes for determining and managing key risks particularly in relation to non-compliance with laws, regulations, standards and best practice guidelines, including environmental and industrial relations laws.
- Ensure the entity has an effective risk management system and that material risks to the entity are reported at least half yearly to the Board.
- Receive from management reports on all suspected and actual frauds, thefts and breaches of laws.
- Meet periodically with key management and external audit representatives to understand, discuss and assess the entity's control environment.
- Evaluate the process the entity has in place for assessing and continuously improving internal controls, particularly those related to areas of significant risk.
- Assess whether management has controls in place for unusual types of transactions and /or any potential transactions that may carry more than an acceptable degree of risk.
- Ensure management have performed an appropriate review of the Company's insurance coverage and associated business risks prior to renewing key policies.
- Assess the effectiveness of and compliance with the corporate code of ethical conduct.

5 **Reporting**

The Chairman of the Committee shall formally report to the Board of Directors at the Board meeting following each Committee meeting, providing a summary of the Committee's work and deliberations.

This report should include:

- The minutes of the Committee's meeting;
- Any formal resolutions made by the Committee;
- Details of any discussions on the audit process and the results of any external audits performed in the period.;
- Any recommendations requiring Board approval; and
- Other matters the Committee believe need to be reported to the Board.

As part of the Committee's annual review of its performance, the Committee will provide additional reporting to the Board as appropriate as part of the Committee's role of monitoring financial reporting, internal and external audit processes and the Company's risk management and internal control systems.

6 **Authority to Seek Additional Information**

The Committee shall have the authority to seek any information it requires from any officer or employee of the Company or its controlled entities and such officers or employees shall be instructed by the Board to respond to such enquiries. To the extent the Committee deems necessary, the Committee may retain independent legal, accounting or other advisors.

7 Other Responsibilities

This Charter should be reviewed at least annually and changes required should be recommended to the Board for approval. The Committee will annually review its own performance.

8 Limitation of Committee's Role

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the API Group's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. It is the external auditor's responsibility to plan and conduct the audit. It is managements' responsibility to determine the API Group's financial statements and disclosures are complete and in accordance with generally accepted accounting principles and applicable rules and regulations. Ultimately, responsibility for overseeing the integrity of API's financial reporting rests with the Board.

Approved by the Board on: 03 April 2007