



# **Audit & Risk Management Committee Charter**

## **Adacel Technologies Limited**

**ACN 079 672 281**

**(the Company)**

**Adopted by the Board on 28 June 2017**

# Audit & Risk Management Committee Charter

## Adacel Technologies Limited (the Company)

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### 1. Introduction

#### 1.1 Purpose of Charter

This is the Charter of the Audit & Risk Management Committee (**Committee**) established by the board of the Company (**Charter**). The Charter governs the operations of the Committee. It sets out the Committee's role and responsibilities, composition, structure and membership requirements.

#### 1.2 Purpose of Committee

The Committee has been established to assist the Board of the Company (**Board**) in fulfilling its corporate governance and oversight responsibilities in relation to the financial reports, financial reporting process, internal control structure, risk management systems (financial and non-financial) and the internal and external audit process of the Company and its related bodies corporate (the **Group**). Accordingly, the Committee will meet on a regular basis to:

- (a) review and approve internal audit (if applicable) and external audit plans;
- (b) update any internal and external audit plans;
- (c) review and approve financial reports;
- (d) review the independent audit process, including recommending the appointment and assessing the performance of the external auditor;
- (e) review the effectiveness of the Group's compliance and risk management functions; and
- (f) review the Group's process for monitoring compliance with laws, regulations, internal standards (including approving/reviewing the policies, processes and framework for identifying, analysing and addressing complaints (including whistleblowing) and review material complaints and their resolution..

In performing its duties, the Committee will maintain effective working relationships with the Board, management, and external auditors. To perform their role effectively, each Committee member must develop and maintain their skills and knowledge, including an understanding of the Committee's responsibilities.

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### 2. Membership

#### 2.1 Composition of Committee

The Committee will:

- (a) comprise only of members of the Board of Directors (**Directors**) and members will be appointed and removed by the Board;
- (b) be of sufficient size, independence and technical expertise to discharge its mandate effectively;
- (c) consist of to the extent practicable given the size and composition of the Board from time to time:
  - (i) at least three members;

- (ii) only non-executive directors;
  - (iii) where practicable a majority of independent<sup>1</sup> directors (**Independent Directors**); and
  - (iv) an independent<sup>2</sup> Chairperson, who will be nominated by the Board from time to time, but who will not be the Chairperson of the Board;
- (d) comprise members who are financially literate (as in, members who are able to read and understand financial statements);
  - (e) include at least one member who has accounting and/or related financial management expertise (as in, a member who is a qualified accountant or other financial professional with experience of financial and accounting matters) and some members who have an understanding of the industries in which the Group operates; and
  - (f) comprise members who will be appointed for a fixed period of no more than 3 years, with Committee members generally being eligible for re-appointment.

A member may act by their alternate.

While the Company will aim to have a Committee of at least the size and composition outlined above, this may not always be practicable given the size of the Board and the circumstances of the Group. Accordingly, the Board has absolute discretion to determine the appropriate size and composition of the Committee from time to time.

## 2.2 Ceasing to be a member of the Committee

A person will cease to be a member of the Committee if:

- (a) the person gives reasonable notice in writing to the Committee Chairperson of the person's resignation as a member of the Committee;
- (b) the Committee Chairperson gives the person notice in writing that the person is to cease to be a member of the Committee; or
- (c) the person ceases to be a Director, in which case the person automatically ceases to be a member of the Committee.

## 2.3 Secretary

- (a) The Committee will have a secretary, which is to be the Company Secretary or such other person as nominated by the Board (**Committee Secretary**).
- (b) The Committee Secretary will attend all Committee meetings.
- (c) The Committee Secretary, in conjunction with the Chairperson of the Committee, must prepare an agenda to be circulated to each Committee member at least 2 full working days prior to each meeting of the Committee.

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<sup>1</sup> Independent, as defined by the ASX Corporate Governance Council. See schedule to this Charter.

<sup>2</sup> See note 1

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## **3. Meetings & authority of Committee**

### **3.1 Meetings**

- (a) The Committee will meet often enough to undertake its role effectively, being at least two times each calendar year.
- (b) The quorum for any meeting will be 2 members.
- (c) Special meetings may be convened as required. The Chairperson will call a meeting of the Committee if requested to do so by any member of the Committee, by the external auditors or by the Chairperson of the Board.
- (d) The Committee may invite such other persons (for example, staff, Managing Director/CEO, CFO, external parties) to its meetings, as it deems necessary, whether on a permanent or ad hoc basis.
- (e) The proceedings of all meetings will be minuted and these will be included in the papers for the next Board meeting after each Committee meeting.
- (f) The Committee may pass or approve a resolution without holding a meeting in accordance with the procedures (so far as they are appropriate) in section 248A of the *Corporations Act 2001* (Cth) (**Act**).
- (g) Committee meetings may be held by any technological means allowing its members to participate in discussions even if not all of them are physically present in the same place. A member who is not physically present but participating by technological means is taken to be present.

### **3.2 Authority**

The Board authorises the Committee, within the scope of its responsibilities, to:

- (a) investigate any matter brought to its attention with full access to all books, records and facilities;
- (b) seek any information it requires from an employee (and all employees are directed to co-operate with any request made by the Committee) or external parties;
- (c) obtain external accounting, legal, insurance, compliance, risk management or other professional advice as it determines necessary to carry out its duties; and
- (d) ensure the attendance of Group officers at meetings as it thinks appropriate.

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## **4. Duties and responsibilities**

### **4.1 Understanding the Company's Business**

The Committee will ensure it understands the Group's structure, business and controls to ensure that it can adequately assess the significant risks faced by the Group.

### **4.2 External financial reporting**

The Committee is responsible for:

- (a) assessing the appropriateness and application of the Group's accounting policies and principles and any changes to them, so that they accord with the applicable financial reporting framework;
- (b) obtaining an independent judgement from the external auditor about:

- (i) the acceptability and appropriateness of accounting policies and principles put forward by management; and
- (ii) the clarity of current or proposed financial disclosure practices as put forward by management;
- (c) assessing any significant estimates or judgments in the financial reports (including those in any consolidated financial statements) by:
  - (i) querying management as to how they were made; and
  - (ii) querying the external auditors as to how they concluded that those estimates were reasonable;
- (d) reviewing compliance with all related party disclosures required (where applicable) by accounting standards and the Act;
- (e) assessing information from internal and external auditors that may affect the quality of financial reports (for example, actual and potential material audit adjustments, financial report disclosures, non-compliance with laws and regulations, and internal control issues);
- (f) reviewing any half-yearly and annual financial reports (including those prepared on a consolidated basis) with management, advisers and the internal and external auditors (as appropriate) to assess (among other things):
  - (i) the compliance of accounts with accounting standards and the Act; and
  - (ii) the nature and impact of any changes in accounting policies during the applicable period;
- (g) discussing any draft audit opinion letter with the external auditors before it is finalised;
- (h) receiving any management letter from the external auditors;
- (i) recommending for adoption by the Board interim and final financial reports and the annual report;
- (j) reviewing documents and reports to regulators and recommending to the Board their approval or amendment; and
- (k) following up on any matter raised by the Board regarding financial reports, audit opinions and management letters.

### **4.3 Risk management and internal control**

The Committee is responsible for:

#### **Risk management and internal compliance and control systems**

- (a) overseeing the establishment and implementation of risk management and internal compliance and control systems and ensuring there is a mechanism for assessing the efficiency and effectiveness of those systems; and
- (b) approving and recommending to the Board for adoption policies and procedures on risk oversight and management to establish an effective and efficient system for:
  - (i) identifying, assessing, monitoring and managing risk; and
  - (ii) disclosing any material change to the risk profile;

- (c) regularly reviewing and updating the risk profile;
- (d) assessing the adequacy of the internal risk control system with management and internal and external auditors;
- (e) monitoring the effectiveness of the internal risk control system;
- (f) ensuring the risk management system takes into account all material risks, including risks arising from:
  - (i) implementing strategies (strategic risk);
  - (ii) operations or external events (operational risk);
  - (iii) legal and regulatory compliance (legal risk);
  - (iv) changes in community expectation of corporate behaviour (reputation risk);
  - (v) a counterparty's financial obligations within a contract (credit risk);
  - (vi) changes in financial and physical market prices (market risk); and
  - (vii) being unable to fund operations or convert assets into cash (liquidity risk);
- (g) assessing if management has controls in place for unusual transactions and any potential transactions that may carry more than an acceptable degree of risk;

### **Key financial risk**

- (h) assessing and prioritising the areas of greatest potential financial risk, including:
  - (i) safeguarding assets;
  - (ii) litigation and claims;
  - (iii) non-compliance with laws, regulations, standards and best practice guidelines that may result in significant financial loss;
  - (iv) important judgments and accounting estimates; and
  - (v) maintenance of proper accounting records;
- (i) assessing the internal process for determining areas of greatest potential financial risk;
- (j) assessing and monitoring the management of areas of greatest potential financial risk;
- (k) reporting to the Board on the adequacy of the financial risk management;

### **Legal and regulatory risk**

- (l) assessing and prioritising the areas of greatest legal and regulatory risk;
- (m) assessing the internal process for determining, monitoring and managing areas of greatest legal and regulatory risk;
- (n) receiving reports from management of any actual or suspected fraud, theft or other breach of the law;

- (o) monitoring compliance with legal and regulatory obligations;
- (p) reporting and making recommendations to the Board regarding:
  - (i) the management of areas of greatest legal and regulatory risk (including fraud and theft); and
  - (ii) compliance with legal and regulatory obligations;
- (q) receiving and reviewing reports from the senior compliance manager;

#### **Disclosure and reporting**

- (r) ensuring management establishes a comprehensive process to capture information that must be disclosed to ASX;
- (s) reviewing management's processes for ensuring and monitoring compliance with laws, regulations and other requirements relating to the external reporting of financial and non-financial information (including, among other things, preliminary announcements, interim reporting, open or one-on-one briefings and continuous disclosure);
- (t) assessing management's processes for ensuring non-financial information in documents (both public and internal) does not conflict inappropriately with financial reports and other documents;
- (u) assessing internal control systems relating to the release of potentially adverse information; and
- (v) reviewing for completeness and accuracy the reporting of corporate governance practices in accordance with the ASX Listing Rules.

#### **4.4 External audit**

The Committee is responsible for:

- (a) approving and recommending to the Board for acceptance, the terms of engagement with the external auditor at the beginning of each year;
- (b) regularly reviewing with the external auditor:
  - (i) the scope of the external audit;
  - (ii) identified risk areas; and
  - (iii) any other agreed procedures;
- (c) approving and recommending to the Board for adoption, policies and procedures for appointing or removing an external auditor, including criteria for:
  - (i) technical and professional competency;
  - (ii) adequacy of resources; and
  - (iii) experience, integrity, objectivity and independence;
- (d) recommending to the Board for approval, the appointment or removal of an external auditor based on those policies and procedures referred to in paragraph (c);
- (e) reviewing and assessing on a regular basis the compliance of the external auditor with criteria referred to in paragraph (c);

- (f) recommending to the Board the remuneration of the external auditor;
- (g) regularly reviewing the effectiveness and independence of the external auditor taking into account:
  - (i) the length of appointment;
  - (ii) the last dates lead engagement partners were rotated;
  - (iii) an analysis and disclosure of fees paid to external auditors, including the materiality of fees paid for non-audit services and the nature of those services; and
  - (iv) any relationships with the Group or any other body or organisation that may impair or appear to impair the external auditor's independence;
- (h) satisfying itself that the external auditor can do an effective, comprehensive and complete audit for the external auditor's set fee;
- (i) recommending to the Board for approval the types of non-audit services that the external auditor may provide without impairing or appearing to impair the external auditor's independence;
- (j) meeting periodically with the external auditors and inviting them to attend Committee meetings to:
  - (i) review their plans for carrying out internal control reviews;
  - (ii) consider any comments made in the external auditor's management letter, particularly, any comments about material weaknesses in internal controls and management's response to those matters; and
  - (iii) make recommendations to the Board;
- (k) asking the external auditor if there have been any significant disagreements with management, whether or not they have been resolved;
- (l) monitoring and reporting to the Board on management's response to the external auditor's findings and recommendations;
- (m) reviewing all representation letters signed by management and ensuring information provided is complete and appropriate; and
- (n) receiving and reviewing the reports of the external auditor.

#### **4.5 Other responsibilities**

The Committee is responsible for:

- (a) overseeing the implementation of the Group's corporate code of conduct and assessing compliance with it;
- (b) overseeing the implementation of the Group's code of conduct for directors and senior executives of and assessing compliance with it;
- (c) assessing and recommending to the Board for adoption the scope, cover and cost of insurance, including insurance relating to directors and officers liability, company reimbursement, professional indemnity, crime, special accident and trustees liability;
- (d) if it considers appropriate, investigating any complaint or allegation made to it;

- (e) reviewing and monitoring any related party transaction and recommending its approval; and
- (f) ensuring the audit, risk management and compliance policies and procedures are adequately documented and that those documents are reviewed and updated for any legal and regulatory developments.

#### **4.6 Compliance with Laws and Regulations**

The Committee will:

- (a) gain an understanding of the current areas of greatest compliance risk (financial and non-financial) and review these areas on a regular basis;
- (b) obtain regular updates from management, the Group's legal counsel, auditors and any external parties as it thinks fit regarding audit, risk management and compliance matters and regularly review existing compliance systems and consider any deficiencies in compliance risk measures;
- (c) review any legal matters which could significantly impact the Group's compliance and risk management systems, and any significant compliance and reporting issues, including any recent internal regulatory compliance reviews and reports;
- (d) review the effectiveness of the compliance function at least annually, including the system for monitoring compliance with laws and regulations and the results of management's investigations and follow-ups (including disciplinary action) of any fraudulent acts or non-compliance;
- (e) be satisfied that all regulatory compliance matters have been considered in the preparation of the Company's official documents; and
- (f) review the findings of any examinations by regulatory agencies and oversee all liaison activities with regulators.

#### **4.7 Review of media releases, announcements and complaints**

The Committee will:

- (a) review and discuss media releases, ASX announcements and any other information provided to analysts;
- (b) review all representation letters signed by management to ensure that the information provided is complete and appropriate;
- (c) establish procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters; and
- (d) review corporate legal reports of evidence of a material violation of the Corporations Act, the ASX Listing Rules or breaches of fiduciary duties.

#### **4.8 Committee performance**

- (a) The Committee will perform an evaluation of its performance at least once a calendar year to determine whether it is functioning effectively by reference to current best practice.
- (b) The Board will evaluate the performance of the Committee as appropriate.

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## **5. Other matters**

### **5.1 Amendment of Charter**

This Charter can only be amended with the approval of the Board.

### **5.2 Adoption of Charter and periodic review**

This Charter was adopted by the Board on 28 June 2017, and takes effect from that date and replaces any previous charter in this regard.

The Committee must review and reassess this Charter and the Risk Management Policy at least once a calendar year and, on each occasion, obtain the approval of the Board to any amendments to the Charter or Risk Management Policy. The Board will also review this Charter and the Risk Management Policy periodically.

The Company Secretary will communicate any amendments to employees as appropriate.

## Schedule

### **Independence as defined by the ASX Corporate Governance Council in their Corporate Governance Principles and Recommendations (3rd edition)**

An independent director is a non-executive director who is not a member of management, and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement and to act in the best interests of the Company and its security holders generally.

The corporate governance guidelines provide certain criteria for assessing the independence of directors and outline relationships which may affect independent status. They provide that when determining the independent status of a director the board should consider whether the director:

1. is, or has been, employed in an executive capacity by the Company or another group member, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
2. is, or has within the last three years been, a principal, partner, director, or senior employee of a material professional adviser or a material consultant to the Company or another group member;
3. is, or has been within the last three years, in a material business relationship (such as a material supplier or customer) with the Company or other group member, or an officer of, or otherwise associated directly or indirectly with, someone with such a relationship;
4. is a substantial shareholder of the Company, or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
5. has a material contractual relationship with the Company or another group member other than as a director of the Company;
6. has close family ties with a person who falls within any of the above categories;
7. has been a director of the Company for such a period that his or her independence may have been compromised.

Family ties and cross-directorships may be relevant in considering interests and relationships which may compromise independence, and should be disclosed by directors to the board.