

# Audit and Risk Committee Charter

## 1. Purpose

The Audit and Risk Committee (ARC) oversees and monitors the Company's audit processes, including the Company's internal control activities. This Committee Charter (**Charter**) sets out the role, responsibilities, structure and processes of the Audit and Risk Committee of AustCham Shanghai (the Company).

## 2. Roles and Responsibilities

- 2.1 The ARC is not a policy-making body nor does it have substantive executive function; however it assists the Board in developing Board policy, monitoring Company activity within the scope of its remit and making recommendations to the Board for resolution. The role of the committee includes assisting the Board in the Company's governance and exercising of due care, diligence and skill in relation to:
- (a) reporting financial information to users of financial reports
  - (b) application of accounting policies
  - (c) financial management
  - (d) the internal control system
  - (e) the risk management system
  - (f) the performance management system
  - (g) business policies and practices
  - (h) protection of the Company's assets
  - (i) compliance with applicable laws, regulations, standards and best practice guidelines
- 2.2 Other committee objectives include:
- (a) improving the credibility and objectivity of the accountability process, including financial reporting
  - (b) overseeing the effectiveness of the internal and external audit functions and providing a forum for communication between the Board and the internal and external auditors
  - (c) ensuring the independence of the external auditor
  - (d) providing a structured reporting line for internal audit and monitoring the objectivity and independence of the internal auditor
  - (e) assuring the quality of internal and external reporting of financial and non-financial information
  - (f) managing insurance programs to ensure appropriate coverage by reputable insurers at competitive premium levels with regard to the Company's circumstances and needs

- g) ensuring an ethical culture is embedded throughout the Company

### **3. Authority**

The Board authorises the ARC, through the Committee Chair, to:

- (a) oversee the compensation and work of any registered company auditor appointed by the Company
- (b) resolve any disagreements between management and the auditor over financial reporting
- (c) pre-approve all audit and non-audit services
- (d) retain independent counsel, accountants or others to advise the ARC or assist in the conduct of an investigation
- (e) seek any information it requires from employees, who are directed to co-operate with the audit committee's requests, or from external parties.

### **4. Composition**

- 4.1 The ARC will consist of at least three, and no more than five, members of the Board. The Board, on recommendation of its Nominations Committee, will appoint ARC members and the Chair of the Committee.
- 4.2 Membership of the ARC is reviewed annually and members are eligible for reappointment. Membership of the ARC is to be confirmed annually by the Board in alignment with the annual general meeting.
- 4.3 Each ARC member will be non-executive and financially literate. At least one member of the ARC will have relevant qualifications and experience (such as being a qualified accountant holding a current accounting qualification, CPA or CA, or other professional with experience of financial and accounting matters).
- 4.4 The Chair of the Committee must be non-executive and must not also be the Chair of the Board.

### **5. Invitees**

- 5.1 Other persons may attend meetings of the ARC by invitation. Persons who may commonly be invited to attend include:
  - (a) the Chief Executive Officer
  - (b) the Finance Manager
  - (c) the Company Secretary
  - (d) the Head of Internal Audit
  - (e) the external audit provider.

- 5.2 Invitees may take part in the business of, and discussions at, the meeting but have no voting rights.
- 5.3 At times all executive and management personnel will be invited to leave the meeting to allow the Committee to have a closed session either with or without the presence of the external audit provider.

## **6. Meetings**

- 6.1 The ARC will meet at least four times per year and additionally as the Committee considers necessary at appropriate points in the audit cycle. The internal or external auditors may request a meeting and such a request is to be met.
- 6.2 A quorum will be more than half the members. In the Chair's absence from a meeting, the members present will select a Chair for that particular meeting.
- 6.3 All ARC members are expected to attend each meeting in person or through other approved means such as teleconferencing or video conferencing.
- 6.4 The notice and agenda of a meeting will include relevant supporting papers.
- 6.5 The Company Secretary (or other appropriate designated person) will act as secretary to the ARC. The secretary will assist the Chair to develop and distribute agendas, papers, minutes and calendar.
- 6.6 The ARC may invite other people to attend as it sees fit and consult with other people or seek any information it considers necessary to fulfill its responsibilities. The members may meet separately with auditors.

## **7. Voting**

Any matters requiring decision will be decided by consensus, or if a consensus is not achievable, then by a majority of votes of members present.

## **8. Conflict of Interest**

Committee members will be invited to disclose conflicts of interest at the commencement of each meeting. Ongoing conflicts of interest need not be disclosed at each meeting once acknowledged. Where members or invitees are deemed to have a real or perceived conflict of interest, they will be excused from committee discussions on the issue where a conflict exists.

## **9. Minutes**

Minutes must be prepared, approved by the Chair and circulated to the members within one week of a meeting. The minutes must be ratified at the next meeting of the Committee and signed by the Chair of that next meeting.8.3 A quorum for a Board meeting shall be determined in accordance with the Constitution.

## **10. Reporting to the Board**

The Chair of the ARC is to report to the Board following each committee meeting. The manner of reporting may be by distribution of a copy of the minutes supplemented by other necessary information, including recommendations requiring Board action and/or approval. The Chair is to organise the supply of information regarding the ARC which is to be included in the Company's annual report.

## **11. Review**

- 11.1 The ARC will review its performance on an annual basis. The review may be conducted as a self-assessment and will be coordinated by the Chair. The assessment may seek input from any person. The Chair will monitor training needs.
- 11.2 The ARC should review this charter and its composition annually to ensure that it remains consistent with the Board's objectives and responsibilities. The Board should consider the committee's review and either approve or further review the committee's charter and/or composition.

## **Appendix - Responsibilities of the Audit and Risk Committee**

The ARC will carry out the following responsibilities:

### **Financial reporting**

- (a) Review significant financial reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory announcements and understand their effect on the financial report.
- (b) Review management's processes for ensuring and monitoring compliance with laws, regulations and other requirements.
- (c) Review with management and the external auditors the results of the audit, including any difficulties encountered.
- (d) Review the annual financial report
- (e) Assess significant estimates and judgments in financial reports by asking management about the process used in making material estimates and then ask the internal and external auditors the basis for their conclusions on the reasonableness of management's estimates.
- (f) Consider the appropriateness of the accounting principles and policies adopted and any amendments, as well as the methods of applying those principles and policies ensuring they are in accordance with the stated financial reporting framework.
- (g) Understand how management develops interim financial information and the nature and extent of internal and external auditor involvement.
- (h) Assess management explanations for unusual transactions or significant variances from prior year results or current year budget.

### **Internal control and risk management**

- (a) Assess the internal processes for determining and managing key risk areas, particularly:
  - >compliance with laws, regulations, standards and best practice guidelines;
  - >important judgments and accounting estimates
  - >litigation and claims
  - >fraud and theft
  - >relevant business risks other than those dealt with by other specific board committees
- (b) Ensure that the Company has an effective risk management system and that significant or material risks are reported to the Board.
- (c) Address the effectiveness of the internal control, risk management and performance management systems with management and the internal and external auditors.
- (d) Assess effectiveness of, and compliance with, any company codes of conduct and compliance with internal plans, policies and procedures. The directors acknowledge that all proceedings of the Board and its committees are strictly confidential and will not be disclosed to any person other than Board members, except as agreed by the Board or as required by law.
- (e) Obtain regular updates from management and Company lawyers about compliance matters.

### **External audit**

- (a) Make recommendations to the Board on the appointment, remuneration and monitoring of the effectiveness and independence of the external audit provider.
- (b) Review the external audit provider's fee and be satisfied that an effective audit can be conducted for the fee.
- (c) At the start of each audit, agree the terms of engagement with the provider and review the annual engagement letter.
- (d) Review and confirm the independence of the external audit provider by obtaining statements from the provider on relationships between the auditor and the Company (including non-audit services) and discussing the relationships with the auditor.
- (e) Monitor and critique management's responsiveness to the external audit provider's findings and recommendations - ask the provider if there have been any significant disagreements with management (irrespective of whether they have been solved).
- (f) Provide the opportunity for audit committee members to meet with the external audit provider without management personnel being present at least once a year.

### **Internal Audit**

- (a) Make recommendations to the Board on the appointment, remuneration and monitoring of the effectiveness and independence of internal audit.
- (b) Ensure that sufficient resources are available to enable an effective audit to be conducted in the areas identified for internal audit review.
- (c) Communicate the ARC's expectations to the internal audit in writing and ensure that reports are sent directly to the ARC.
- (d) Review and approve the scope of the internal audit plan and work program, monitor progress and consider the implications of internal audit findings for the control environment.
- (e) Monitor and critique management's responsiveness to the internal audit findings and recommendations.
- (f) Ensure that the internal audit and external audit programs are effectively coordinated.
- (g) Provide the opportunity for ARC members to meet with the internal auditor without management personnel being present at least once a year.

### **Related party transactions**

Review and monitor the propriety of related party transactions.

### **Insurance**

Review the Company's insurance arrangements including:

- >type of cover
- >scope of cover
- >duration of cover
- >adequacy of cover
- >cost of cover
- >terms and conditions of cover including exclusions and limitations
- >counter-party risk of insurer, including through engaging professional insurance broker services

### **Corporate governance**

Assist the Board to ensure appropriate corporate governance is in place with respect to the scope of its remit.

### **Other responsibilities**

- (a) Perform other activities related to this charter as requested by the Board.
- (b) Institute and oversee special investigations as needed.
- (c) Review and assess the adequacy of this charter annually, requesting Board approval for changes and ensure appropriate disclosure as may be required by the Company Constitution or any applicable laws and regulations.

- (d) Confirm annually that all responsibilities outlined in this charter have been carried out.
- (e) Evaluate the ARC's and individual members' performance annually.