
Audit and Risk Management Committee Charter

Etherstack plc (UK Registered Company No 7951056)

Reviewed by the board and adopted 4 November 2019

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1 Role of the Audit and Risk Management Committee and Authority

- (a) The Etherstack plc (UK Registered Company No 7951056) (**Company**) board (**Board**) Audit and Risk Management Committee (the **Committee**) shall assist the Board in fulfilling its responsibilities for corporate governance and oversight of the Company's financial reporting, internal control structure, risk management systems (relating to all financial and non-financial risks, including information security risks, security classification risks, enterprise risk and risk in relation to occupational health and safety), the internal audit function (if any) and the external audit functions. In doing so, the Committee has the responsibility to maintain free and open communication with the external auditor, internal auditor (if one is appointed), and the Company's management.
- (b) The Committee is empowered to investigate any matter, with full access to all books, records, company operations, and people of the Company and the authority to engage independent accounting, legal, compliance, risk management or other professional advisers as it determines necessary to carry out its duties.
- (c) The Committee is a committee of the Board established in accordance with the Company's constitution and authorised by the Board to assist it in fulfilling its statutory and regulatory responsibilities. It has the authority and power to exercise the role and responsibilities set out in this charter and granted to it under any separate resolutions of the Board from time to time.

In accordance with the ASX Corporate Governance Councils Corporate Governance Principles and Recommendations, a reference in this Charter to the Company also includes a reference to a subsidiary and associate of the Company as defined in AASB 128 Investments in Associates.

2 Membership

- (a) The Committee shall be members of, and appointed by, the Board and shall, to the extent practicable given the size and composition of the Board from time to time, comprise:
 - (i) at least three members a majority of which must be non-executive directors;
 - (ii) a majority of directors who are independent of management and the Company (as determined in accordance with the Company Board Charter).
- (b) All Committee members shall be financially literate (i.e. are be able to read and understand financial statements).
- (c) One member, who does not chair the Board but is independent of management and the Company, shall be appointed to chair the Committee.
- (d) At least one member shall have accounting and/or related financial management expertise as determined by the Board (i.e. be a qualified accountant or other finance professional with experience of financial and accounting matters).
- (e) All Committee members shall have a reasonable understanding of the industries in which the Company participates.
- (f) Members will be appointed for a fixed period of no more than three years, with Committee members generally being eligible for re-appointment for so long as they meet the relevant criteria established in paragraph (a) above.

- (g) The appointment and removal of Committee members shall be the responsibility of the Board.
 - (h) Members may resign as a Committee member upon reasonable notice in writing to the Committee chair.
 - (i) If a Committee member ceases to be a director of the Board their appointment as a member of the Committee is automatically terminated with immediate effect.
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3 Meetings

- (a) The Committee shall meet at least three times annually or as frequently as required to undertake its role effectively.
 - (b) Any Committee member may, and the company secretary must upon request from any member, convene a meeting of the Committee. Notice must be given to every member of the Committee at the member's advised address for service of notice (or such other pre-notified interim address where relevant).
 - (c) The chief executive officer, chief financial officer, internal audit manager (if any) and the partner in charge of the external audit will be routinely invited to attend meetings of the Committee unless the chair of the Committee decides otherwise. Other senior managers may be asked to attend when the Committee is reviewing specific agenda items.
 - (d) There is an open invitation for all other non-executive directors to attend Committee meetings.
 - (e) The proceedings of all meetings will be minuted by the company secretary. All minutes of the Committee must be entered into a minute book maintained for that purpose and be open at all times for inspection by any director.
 - (f) A quorum for any meeting will be at least two Committee members.
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4 Duties and Responsibilities

- (a) The primary responsibility of the Committee is to report to the Board and provide appropriate advice and recommendations on matters relevant to this charter in order to facilitate decision-making by the Board.
- (b) The Committee shall ensure it understands the Company's structure, business, controls, and types of transactions in order to adequately assess the significant risks faced by the Company in the current environment.
- (c) The Committee's key responsibilities and functions are to:
 - (i) oversee the Company's relationship with the external auditor and the external audit function generally including the fees payable to the auditor for audit and non-audit work;
 - (ii) oversee the Company's relationship with the internal auditor (if one is appointed) and the internal audit function generally (if any);
 - (iii) oversee the preparation of the financial statements and reports;
 - (iv) oversee the Company's financial controls and systems including the adequacy of corporate reporting systems and internal control framework;
 - (v) monitor Etherstack culture to gauge alignment with risk management objectives and safeguard Etherstack reputation and brand;

- (vi) monitor management's performance against the entity's risk management framework, including whether it is operating within the risk appetite set by the board;
 - (vii) review any material incident involving fraud or a breakdown of the entity's risk controls and the "lessons learned";
 - (viii) receive reports from management on new and emerging sources of risk and the risk controls and mitigation measures that management has put in place to deal with those risks;
 - (ix) make recommendations to the board in relation to changes that should be made to the entity's risk management framework or to the risk appetite set by the board; and
 - (x) oversee the entity's insurance program, having regard to the entity's business and the insurable risks associated with its business.
 - (xi) review, monitor and approve the Company's risk management policies, procedures and systems; and
 - (xii) manage the process of identification and assessment of any material financial and non-financial risks (including enterprise risks and risks in relation to occupational health and safety) that may impact the business.
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5 Reporting

- (a) The Committee shall regularly report to the Board on all matters relevant to the Committee's role and responsibilities.
 - (b) The Committee chair will report and, as appropriate, make recommendations to the Board after each Committee meeting on matters dealt with by the Committee.
 - (c) Committee papers are distributed to all Board members. Minutes of Committee meetings are included in the papers for the next full Board meeting, and a report is provided to the Board on matters addressed by the Committee.
 - (d) As and when appropriate, the Committee will seek direction and guidance from the Board on audit, risk management and compliance matters.
 - (e) The Committee shall advise the Board of audit, financial reporting, internal control, risk management and compliance matters which may significantly impact upon the Company in a timely manner.
 - (f) The Committee chair may represent the entire Committee in reporting to the Board.
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6 Financial Reporting

- (a) After review with management and an external auditor, the Committee will recommend to the Board the financial statements and reports intended for publication for approval, including:
 - (i) annual financial statements;
 - (ii) preliminary final report to be filed with the ASX;
 - (iii) half-yearly consolidated financial statements; and
 - (iv) half-year report to be filed with the ASX.

- (b) The Committee shall discuss the results of the annual audit and any other matters required to be communicated to the Committee by the external auditor under generally accepted auditing standards.
 - (c) The Committee shall review the results of the half-year and full year reviews and any other matters required to be communicated to the Committee by the external auditor under generally accepted auditing standards. This will include significant financial reporting issues and judgements made in connection with the preparation of the Company's financial statements.
 - (d) The Committee will assess the impact of changes in accounting standards and review recommendations for adoption of such changes in the financial accounts.
 - (e) The Committee must ensure that appropriate processes are in place to form the basis upon which the chief executive officer and chief financial officer execute their certifications under section 295A of the *Corporations Act 2001 (Cth)* (**Corporations Act**) to the Board at year end in relation to the systems of internal controls, and that that system is operating effectively in all material respects in relation to financial reporting risks.
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7 Internal Controls and Risk Management

- (a) The Committee's specific function with respect to risk management is to review and report to the Board that:
 - (i) the Company's ongoing risk management program effectively identifies all areas of potential risk;
 - (ii) adequate policies and procedures have been designed and implemented to manage identified risks;
 - (iii) proper remedial action is undertaken to redress areas of weakness.
- (b) The Committee's risk and compliance responsibilities will consist of the following:
 - (i) evaluating the adequacy and effectiveness of a risk management framework established by management, which includes the Company's policies and procedures effectively to identify, treat, monitor, report and manage key enterprise risks, including occupational health and safety risks are operating with regard to the risk appetite set by the Board;
 - (ii) evaluating the adequacy and effectiveness of the Company's internal compliance and control systems, including the accounting and financial controls;
 - (iii) reviewing management's, the external auditor's reports and internal auditor's reports (if an internal auditor is appointed) on the effectiveness of systems for internal control, financial reporting and risk management;
 - (iv) reviewing and making recommendations on the strategic direction, objectives and effectiveness of the Company's financial and operational risk management policies;
 - (v) overseeing the establishment and maintenance of processes to ensure that there is:
 - (A) an adequate system of internal control, management of business risks and safeguard of assets; and
 - (B) a review of internal control systems and the operational effectiveness of the policies and procedures related to risk and control.

- (vi) reviewing the Company's legal and ethical compliance programs (including the Company's code of business conduct and ethics);
 - (vii) evaluating the Company's exposure to fraud and overseeing investigations of allegations of fraud or malfeasance;
 - (viii) reviewing the Company's main corporate governance practices for completeness and accuracy; and
 - (ix) evaluating the structure and adequacy of the group's insurance coverage on an annual basis.
- (c) The Committee shall periodically meet separately with management, the internal auditor (if one is appointed), and the external auditor to discuss:
- (i) the adequacy and effectiveness of the accounting and financial controls, including the Company's policies and procedures to assess, monitor and manage business risk and legal, regulatory and ethical compliance programs; and
 - (ii) issues and concerns warranting Committee attention, including but not limited to their assessment of the effectiveness of internal controls and the process for improvement.
- (d) The Committee shall receive regular reports from the external auditor on the critically important accounting policies and practices of the Company, and all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management.
- (e) The Committee shall gain an understanding of the current areas of greatest compliance risk (financial and non-financial) and review these areas on a regular basis.
- (f) The Committee shall review any legal matters which could significantly impact the Company's compliance and risk management systems, and any significant compliance reporting issues, including any recent internal regulatory compliance reviews and reports.
- (g) The Committee shall take steps to ensure that it is satisfied that all regulatory compliance matters have been considered in the preparation of the Company's official documents.
- (h) The Committee shall review the findings of any examinations by regulatory agencies and oversee all liaison activities with regulators.

8 Information security and security classification

- (a) The Company and the Committee recognise that information security and security classification are key risk issues for the Company and the business.
- (b) As part of developing strategies and frameworks for the Company, the Committee will develop a strategy and framework for:
- (i) information security to ensure information and information systems are protected from unauthorised access, perusal, use, modification, disruption, or recording and maintaining the confidentiality and integrity of its information security regardless of its form); and
 - (ii) security classifications to ensure that the integrity of client confidential information provided to the Company is maintained.
- (c) The Committee will develop, evaluate, monitor and assess the effectiveness of the:

- (i) information security strategy and framework; and
- (ii) security classification strategy and framework,

in accordance with clause 7 (**Internal Controls and Risk Management**) of this charter and the other provisions of this charter.

9 External Audit

- (a) The Committee shall be directly responsible for making recommendations to the Board on the appointment, reappointment or replacement (subject to shareholder ratification), remuneration, monitoring of the effectiveness, and independence of the external auditor.
- (b) The Committee will make its recommendation to the Board on the appointment of the external auditor based on it being satisfied that the auditor will provide sound and professional audit services in accordance with the above review.
- (c) The external audit firm partner in charge of the Company audit, and any individuals playing a significant role in the audit, must be rotated every five years. The Committee shall discuss with the external auditors the overall scope of the external audit, pre-approve all audit and non-audit services provided by the external auditor and shall not engage the external auditor to perform any non-audit or assurance services that may impair or appear to impair the external auditor's judgment or independence in respect of the Company. The Committee may delegate pre-approval authority to a member of the Committee.
- (d) The Committee shall advise the Board on statements to be made in the directors' report regarding non-audit services in accordance with the Corporations Act.
- (e) At least once a year, the Committee shall obtain and review a report by the external auditor describing:
 - (i) the overall scope of the external audit, including risk areas identified and any additional agreed procedures. In addition, the Committee shall approve the external auditor's compensation;
 - (ii) the audit firm's internal quality control procedures;
 - (iii) any material issues raised by the most recent internal quality control review, or peer review, of the audit firm; or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and
 - (iv) all relationships between the external auditor and the Company (to assess the auditor's independence). For the half year and full year accounts, the external auditor is required to confirm in writing its independence as auditor within the meaning of relevant legislation in Australia and the standards set by the relevant accounting body.
- (f) The Committee requires that all services provided by the external auditor, including the non-audit services that may be provided, must be in accordance with the following principles:
 - (i) the external auditor should not have a mutual or conflicting interest with the Company;
 - (ii) the external auditor should not audit its own work;
 - (iii) the external auditor should not function as part of management or as an employee; and

- (iv) the external auditor should not act as an advocate of the Company.
 - (g) Annually the Committee will request from the external auditor a report which sets out all relationships that may affect its independence, including the provision of non-audit services, financial relationships, employment and other relationships and any other matters that may reasonably be thought to have bearing on the external auditor's independence. The report should outline any safeguards that the external auditor has in place to reduce any threat to independence to an acceptable level.
 - (h) The Committee will:
 - (i) review the performance, independence and objectivity of the external auditors;
 - (ii) review the procedures for selection and appointment of the external auditors and rotation of external audit engagement partner; and
 - (iii) develop and oversee the implementation of the Company's policy on the engagement of the external auditor to supply non-audit services and ensure compliance with that policy.
 - (i) The Committee will advise the board as to whether it is satisfied that the provision of non-audit services by the external auditor is compatible with the independence principles outlined at clause (f), and provide an explanation of why those non-audit services do not compromise audit independence, in order for the Board to be in a position to make the statements required by the Corporations Act to be included in the Company's annual report.
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10 Internal Audit and Communication

- (a) The Committee may recommend to the Board the appointment and dismissal of an internal audit manager. If an internal audit manager is to be appointed, they shall be independent of the external auditor.
 - (b) If an internal audit manager is appointed:
 - (i) the Committee shall review the scope of the internal audit plan with the internal audit manager, including the work program and quality control procedures; and
 - (ii) the Committee shall review the performance and objectivity of the internal audit function.
 - (c) The Committee shall establish procedures for dealing with complaints received by the Company (including receipt, retention, and effective treatment of these complaints) regarding accounting, internal accounting controls, or auditing matters, and submissions by employees of the Company, including anonymous submissions, of concerns regarding questionable accounting or auditing matters. All such employee submissions shall be treated as confidential. The Committee shall receive corporate legal reports of evidence of any material violation of the Corporations Act, the ASX Listing Rules or breaches of fiduciary duty.
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11 Committee Performance

- (a) The Board will, at least once in each year, review the membership and Charter of the Committee to determine their respective adequacy for current circumstances and the Committee may make recommendations to the Board in relation to the Committee's membership, responsibilities, functions or otherwise.
- (b) The Committee shall make an evaluation of its performance at least once every two years to determine whether it is functioning effectively by reference to current best practice.