

# **Audit and Risk Committee Charter**

**Piston Machinery Ltd.**  
**ACN 618 786 333**

Version 1  
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## AUDIT AND RISK COMMITTEE CHARTER

This Charter outlines the roles and responsibilities of the Audit and Risk Committee established by the Board of Piston Machinery Ltd.

It reflects the Board's endorsement of the recommendations contained in the ASX Corporate Governance Council's Principles and Recommendations, 3rd edition, 2014.

### 1. Role

- (a) The Audit and Risk Committee (**Committee**) is a sub-committee of the Board established to assist the Board discharge its responsibilities.
- (b) The Committee will assist the Board by its oversight and review of:
  - (i) Financial reporting;
  - (ii) Risk management;
  - (iii) Internal control;
  - (iv) Auditor independence and performance; and
  - (v) Compliance with applicable laws and regulations.

### 2. Membership

- (a) Membership will consist of at least three directors, a majority of whom are independent directors if possible, and one of whom will be the Chairman of the Committee.
- (b) The Chairman of the Committee shall be an independent director.
- (c) The Board will review membership annually at the start of each year or following the termination or resignation of a member. Members should be rotated on a staggered basis to facilitate input of new ideas, while still retaining a degree of continuity.
- (d) In performing its duties, the Committee will maintain effective working relationships with the Board and management.
- (e) Members of the Committee will abide by the Code of Conduct.

### 3. Meetings

- (a) The Committee Chairman will convene meetings at least quarterly 'face-to-face' or more frequently as required. Special meetings may be called at the request of any Committee member, the external auditor or internal auditor.
- (a) The Company Secretary will be responsible for preparation and circulation of meeting agendas, and the preparation and distribution of formal minutes of proceedings and recommendations. Agendas will be prepared following input from Committee members, and after confirmation by the Committee Chairman, will be distributed at least five (5) working days prior to each meeting. Minutes will be distributed to Committee members as soon as possible after the meeting, and must be confirmed as an accurate record of the meeting at the next subsequent meeting of the Committee.

- (b) Any Director who is not a member of the Committee will have the right to attend meetings of the Committee.
- (c) At the discretion of the Committee, the Chief Finance Officer, Group Financial Controller and external auditor may attend meetings.
- (d) A quorum to transact the affairs of the Committee is two persons or a majority of the Committee, whichever is greater. Prior to each meeting, the Committee may convene privately (without management in attendance) in separate sessions with the external auditor.

#### **4. Scope and authorization**

The Committee is authorised, within the scope of its responsibilities, to:

- (a) Seek information it requires from any employee and/or any external party, and all employees are required to cooperate with any lawful request made by the Committee;
- (b) To investigate any activity that is covered by the terms of this Charter;
- (c) Obtain outside legal or other professional advice at the Company's expense, and initiate special investigations as deemed necessary.

#### **5. Committee Responsibilities**

The Committee will:

- (a) Review the half-year and annual financial reports prior to their consideration by the Board.
- (b) This will include a discussion with the auditors of any major transactions and accounting issues, accounting policies adopted and the proposed audit report.
- (c) Assess any proposed changes in accounting practices or policies (by May each year), prior to their consideration by the Board. In addition, the Committee will review any accruals, provisions, asset revaluations or estimates that significantly affect the financial report as well as other sensitive matters, such as disclosure of related party transactions.
- (d) Review jointly with management, the external auditors and, if necessary, legal counsel, any litigation, claim or other contingency, including tax assessments, which could have a material effect upon the financial position or operating results of the Company. The Committee will also review the manner in which these matters have been disclosed in the financial report.
- (e) Discuss with the external auditor the auditor's judgments about the quality and acceptability of the Company's accounting principles.
- (f) Review with the external auditor issues such as the clarity of the Company's financial disclosures and other significant decisions made by management in preparing the financial report.
- (g) Consider any other matter, which affects its recommendation to the Board concerning the adoption of the financial report.
- (h) Monitor the standard of corporate conduct in transactions with related parties.
- (i) Monitor the adequacy of financial information provided to the Board.

## 6. Internal Control, Risk Management and Ethics

The Committee will:

- (a) satisfy itself that management is ensuring an appropriate organisational culture committed to ethical and lawful behaviour, internal control and risk management;
- (b) assess management's programs and policies that deal with the adequacy and effectiveness of internal controls over the Company's business processes;
- (c) evaluate the overall effectiveness of internal control and risk management framework;
- (d) assess the treatment of existing and emerging risks each quarter;
- (e) annually review fraud risk in the Company;
- (f) monitor the adequacy of insurance coverage for the Company;
- (g) review the effectiveness of business continuity planning for the Company;
- (h) oversee the Company's risk management systems, practices and procedures to ensure effective risk identification and management and compliance with internal guidelines and external requirements;
- (i) assist management to determine the key risks to the businesses and prioritise work to manage those risks; and
- (j) review reports by management on the efficiency and effectiveness of risk management and associated internal compliance and control procedures.

The Committee will monitor:

- (k) compliance with laws and regulations;
- (l) processes for the management and exercise of delegations;
- (m) processes to ensure compliance with ASX Rules and principles for Financial Reporting; and
- (n) updates from management and legal counsel regarding compliance matters that may have a material impact on the Company's External Auditor Independence.

The Company's process of risk management and internal compliance and control includes:

- (a) identifying and measuring risks that might impact upon the achievement of the Company's goals and objectives, and monitoring the environment for emerging factors and trends that affect these risks;
- (b) formulating risk management strategies to manage identified risks, and designing and implementing appropriate risk management policies and internal controls; and
- (c) monitoring the performance of, and improving the effectiveness of, risk management systems and internal compliance and controls, including regular assessment of the effectiveness of risk management and internal compliance and control.

To this end, comprehensive practices are in place that are directed towards achieving the following objectives:

- (a) compliance with applicable laws and regulations;

- (b) preparation of reliable published financial information; and
- (c) implementation of risk transfer strategies where appropriate e.g. insurance.

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required to assess risk management and associated internal compliance and control procedures and report back to the Board.

## **7. REPORTING PROCEDURES**

- (a) The Committee Chairman will report the findings and recommendations of the Committee at the next subsequent Board meeting, and a copy of the report will be provided to each Board member. Alternatively, the report of recommendations to the Board may be circulated prior to the next Board meeting by a Circular Resolution.
- (b) At the end of each reporting period, the Committee Chairman shall report the number of times the Committee met throughout the period and the individual attendances of the members at those meetings.

## **8. EVALUATION OF COMMITTEE ACTIVITIES**

At the end of each reporting period, the Board will review the Committee Charter, assess the performance of the Committee, and implement any changes deemed necessary to enhance its function.