

AUSTIN ENGINEERING LIMITED

ABN 60 078 480 136

BOARD AUDIT COMMITTEE CHARTER

1. Membership

a. Membership of the Audit Committee shall be no less than three (3) non-executive Directors with at least two thereof being Independent directors of the Company. The Chairman of the Committee shall be determined as follows:

- by an ordinary resolution of the Board; and
- shall be an Independent Director; and
- shall not be the Chairman of the Board or Managing Director

The members of the Committee at the adoption of the corporate governance manual shall be:

Peter Pursey Chairman
Peter Fitch
Eugene Fung

b. The initial period of appointment shall be for a period of two (2) years from the date of the Committee's first meeting and thereafter membership shall be reviewed annually by the Board.

2. Definitions

In this Charter the following terms shall have the meaning ascribed to them:

“**the Act**” means the Corporations Act 2001 (Cwlth) and regulations made pursuant thereto.

“**ASX**” means the Australian Stock Exchange Limited

“**Board**” means the Board of Directors of the Company.

“**Chairman**” means Chairman of the Committee

“**Charter**” means the Charter of the Committee.

“**Committee**” means the Audit and Risk Committee as a sub-committee of the Board.

“**Company**” means Austin Engineering Limited, A.B.N 60 078 480 136 and its subsidiaries and associated entities.

“**Constitution**” means the Constitution of the Company.

“**Director**” means a director of the Company who has been appointed to the position of director by a resolution of the Board or according to the Constitution or the Act.

“**Independent**” in respect of a Member or a Director means a Member or Director as the case may be who complies with the provisions for independence set out in item 2 of Section 3 “Appointment of Directors” of the Company's Board Charter.

“**Listing Rules**” means the listing rules of the Australian Stock Exchange Limited as promulgated from time to time for companies admitted to the ASX official list

“**Member**” means a member of the Committee appointed in accordance with Regulation 1 of the Charter.

“**Secretary**” means the Secretary of the Committee appointed in accordance with Regulation 8 of the Charter.

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3. Meetings of the Committee

- a. The Committee may determine its own processes at its first meeting, which shall be documented in the minutes thereof and referred to the Board for ratification.
- b. The Committee shall meet as and when it determines is necessary to properly fulfil its functions and to further its objectives.
- c. The Committee shall determine a schedule of regular meetings at its first meeting and in October each year thereafter for the following calendar year.
- d. Although the Committee may conduct its function as it sees fit, formal agendas and minutes shall be prepared for Committee meetings.
- e. The Committee's meetings shall be convened on motion of the Chairman, two Committee Members or by resolution of the Board. Upon the motion for a meeting, the Secretary shall convene a meeting of Committee Members by formal notice in writing (which may be communicated through electronic means) in reasonable advance time of the meeting to which it relates. Reasonable notice shall be determined by the Committee from time to time but shall be not less than three (3) calendar days except for urgent compliance matters. Every Notice of Meeting shall contain, as well as the date, time, place and method of the meeting, a list of the items to be discussed thereat or reason for the meeting. A formal agenda shall be prepared for each meeting, unless all Members entitled to attend agree to dispense with an agenda, which shall refer to documents to be considered at that meeting. All agendas, papers and other documents shall be circulated to all Members a reasonable time before the holding of the meeting. Reasonable time shall be determined by the Committee from time to time but shall not be less than 24 hours except for urgent compliance matters.
- f. A quorum of members shall be two (2).
- g. The Chief Financial Officer of the Company shall, subject to the operation of Regulation 7 hereof, be an ex officio attendee at Committee meetings but shall not be entitled to vote on any matter.

4. Objectives

The Committee's objectives shall be:

- a. To assist the Board to discharge its responsibility to exercise due care, diligence and skill in relation to:
 - reporting of financial information of the Company to users of financial reports;
 - application of the Company's accounting policies;
- b. Improving the credibility and objectivity of the accountability process (including financial reporting), especially where the role of the Committee and its membership by Independent Directors is disclosed to shareholders and the public.
- c. Providing a formal forum for communication between the Board, particularly the Independent directors, and senior financial management.
- d. Improving the effectiveness of the internal and external audit functions and being a forum for improving communication between the Board and the internal and external auditors.
- e. Facilitating and maintaining the independence of the external auditor.
- f. Providing a structured reporting line for internal audit and facilitating the maintenance of the objectivity of the internal auditor.
- g. Improving the quality of internal and external reporting of financial and non-financial information.
- h. Strengthening the role and influence of Independent Directors.

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5. Committee's Function

The Committee's function shall be to:

- a. Provide for effective communication between the Board and internal and external audit functions;
- b. Have a particular focus on verifying and safeguarding the integrity of the Company's financial reporting;
- c. Review the annual and half-yearly reports and to recommend their adoption to the Board;
- d. Review related-party transactions;
- e. Review the efficiency and effectiveness of the internal and external audit functions, including reviewing respective audit plans and managing the audit process;
- f. Oversee the appointment of the Company's external auditors; and
- g. Carry out any other task assigned to the Committee by the Board.

6. Responsibilities

The Committee is a sub-committee of the Board and shall report to and be directly responsible to the Board in respect of the following matters:

a. External Reporting:

- Consider the appropriateness of the Company'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(s). To do this the committee will need to request management to inform the committee of whether the methods chosen by management are consistent with Accounting Standards, Accounting Concepts and Urgent Issues Group (UIG) Consensus Views;
- any changes in significant accounting policies or their application during the reporting period;
- the methods used to account for significant unusual transactions or transactions in emerging areas for which there may be no specific accounting standard, including management's reasoning in determining the appropriateness of those methods and then request the internal and external auditors to inform the Committee of their views thereon;
- 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 internal and external auditors 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 Act and the ASX and, where applicable, those of other countries) relating to the external reporting by the Company of financial and non-financial information;
- Assess information from internal and external auditors that affects the quality of financial reports (e.g. actual and potential material audit adjustments, financial report disclosures, non-compliance with the laws and regulations, internal control issues);
- Seek from the external auditor an independent judgement about the appropriateness, not just the acceptability, of the accounting principles used and the clarity of the financial disclosure practices used or proposed to be used by the Company as put forward by management;

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6. Responsibilities (Cont'd)

- Assess the management of non-financial information in documents (both public and internal) to ensure the information does not conflict inappropriately with the financial statements and other documents;
- Review for completeness and accuracy the reporting of the Company's main corporate governance practices as required under the Listing Rule 4.10.3 and report to the Board as appropriate but in any event prior to approval by the Board of the half yearly and annual report to shareholders.
- Recommend to the Board whether the financial and non-financial statements should be signed based on the Committee's assessment of them. To this end the form of recommendation may, as determined by the Board, be in the form of a certification as provided by item 6.2.2 of Section 6: *Financial and Risk Management* of the Company's *Board Charter*

b. **Related-Party Transactions:**

Review and monitor the propriety of related-party transactions.

c. **Internal Control:**

Assess the internal processes for determining and managing key risk areas, particularly:

- non-compliance with laws, regulations, Listing Rules, standards and best practice guidelines, including environmental and industrial relations laws;
- important judgements and accounting estimates;
- litigation and claims and potential litigation and claims;
- fraud and theft;
- relevant business risks other than those that are dealt with by other specific Board committees;
- address the effectiveness of the Company's internal control system with management and the internal and external auditors;
- evaluate the process the Company has in place for assessing and continuously improving internal financial controls;
- meet periodically with key management, internal and external auditors and compliance staff to understand and discuss the Company's control environment.

d. **External Audit:**

- Make recommendations to the Board on the appointment, remuneration and monitoring of the effectiveness and independence of the external auditor;
- Ensure that any suggestions by management that the auditor needs to be replaced or that the audit needs to be put out to tender are referred to and examined carefully by the Committee with it reporting to the Board on its examination before any decision is made by the Board;
- Review the external auditor's fee and be satisfied that an effective, comprehensive and complete audit can be conducted for the set fee;
- At the commencement of each audit, agree the terms of the engagement with the external auditor;

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6. Responsibilities (Cont'd)

- Invite the external auditor to attend Committee meetings to, at least, review the audit plan, discuss audit/review results and consider the implications of the external audit/review findings for the control environment;
- Together with the external auditor, review the scope of the external audit (particularly the identified risk areas) and any additional agreed-upon procedures on a regular and timely basis;
- Enquire of the auditor if there have been any significant disagreements with management irrespective of whether or not they have been resolved;
- Monitor and critique management's responsiveness to the external auditor's findings and recommendations;
- Review all representation letters signed by management and ensure that the information provided is complete and appropriate;
- Provide the opportunity for the Independent Committee Members to meet with the external auditors without management personnel being present at least once a year; and
- Review the external auditor's independence based on the external auditor's relationships and services with the Company and other organisations that may impair, or appear to impair, the external auditor's independence.

7. Powers:

- a. The Committee shall have wide ranging powers to seek information, reports, explanations from the Company and to question any employee of the Company and any consultant, contractor and internal or external auditor or person who for the time being is acting in any of those positions or performing those functions in respect of any matters it considers relevant or incidental to the discharge of its function and furtherance of its objectives.
- b. The Committee shall have the power to consider and to use whatever forum is conducive to producing appropriate and truthful results of its enquiries having regard to the proper, adequate and competent discharge of its function and particularly in the interests of verifying and safeguarding the integrity of the Company's financial reporting.
- c. Notwithstanding the above, the Committee shall be mindful of and shall protect the rights of employees of the Company in the exercise of its powers. In so doing, the Committee may give to any employee any undertaking that it considers necessary, desirable and in the best interest of the company as a whole. The Committee may also determine that such enquiries are to be conducted "in camera" and may exclude the attendance of any person, except an Independent Member of the Committee, if it is the Committee's view that this method is necessary, or likely to be necessary, in the best interest of the Company as a whole.
- d. The Committee may seek advice (including accounting, taxation and legal advice), reports and other independent counsel as it determines in its absolute discretion is necessary to discharge its function and furtherance of its objectives.
- e. The Committee may meet with either the internal or external auditors or both "in camera" as it determines.
- f. The Committee's powers shall be investigative and advisory only. The Committee shall have **no power to make determinations** on behalf of the Company but shall recommend to the Board on matters for Board determination.

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8. Secretary and other administrative support:

- a. The Committee shall appoint a Secretary to provide administrative support to the Committee.
- b. The Committee may co-opt further administrative and technical support as it determines is necessary or desirable to its proper and efficient performance of its functions and furtherance of its objectives.

9. Reporting to the Board

- a. The Committee shall report to the Board after each Committee meeting. This shall be by way of including in each Board agenda and papers a draft of the Committee's minutes in respect of that meeting.
- b. The Committee Chairman shall further report to the Board in respect of:
 - any determination by the Committee in respect of the external auditor's independence;
 - other matters the Committee believes needs to be reported to the Board; and
 - any recommendations requiring Board action and/or approval.
- a. Where it becomes evident to the Committee that a review and/or amendment to the Charter is necessary and/or desirable the Committee shall submit to the Board a recommendation for the Charter to be amended.