

TOR	Governance
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1. OVERVIEW

This Terms of Reference sets out the principles for the operation of the Audit and Risk Committee of Paddle Australia (PA) established by the Board under rule 19 of the Constitution.

2. DEFINITIONS

"PA"	means Paddle Australia Ltd
"Committee"	means Audit and Risk Committee
"Constitution"	means the PA Constitution
"Board"	means the Board of PA

3. OBJECTIVE AND PURPOSE

The objective and purpose of the Committee is to assist the Board in fulfilling its corporate governance and oversight responsibilities relating to financial accounting practices, internal control systems, risks, external reporting, and the external and internal audit function.

Specifically, the Committee's role is to report to the Board and provide appropriate advice and recommendations on matters relevant to this Terms of Reference in order to facilitate decision making by the Board. The Committee plays an important role in ensuring quality of financial reporting and auditing. However, the existence of the Committee does not diminish the Directors' responsibilities and duties related to the financial management of PA.

4. DUTIES AND RESPONSIBILITIES

4.1 GENERAL DUTIES AND RESPONSIBILITIES

Without limiting section 3 above, the duties and responsibilities of the Committee are:

(a) Financial Reporting

The Committee will oversee PA's system of financial reporting for the purpose of safeguarding its integrity. Its responsibilities in this area include reviewing all regular financial reports and other formal announcements relating to PA's financial performance prepared for regulators, members, and the public, including annual financial reports, before making appropriate recommendations to the Board in relation to:

- (i) Key accounting policies and practices;
- (ii) Adequacy, accuracy and completeness of information;
- (iii) Financial Management processes and procedures;
- (iv) Monitoring the financial position and performance of the organisation;
- (v) Reviewing cash flow and cash flow forecasts;
- (vi) Overseeing the development of annual budget and recommending to the Board for adoption;

- (vii) Compliance with applicable accounting standards and other legal and regulatory requirements in relation to the financial reports and financial reporting in general as applicable to PA; and
- (viii) The extent to which the financial reports are affected by any unusual or related party transactions, and major elements of judgment, significant audit adjustments and audit recommendations that have not been adjusted.

(b) Internal Audit

The Committee will determine the extent of internal audit activities required, how they will be conducted and will monitor the effectiveness of those activities. Its responsibilities include:

- (i) Approving the roles and responsibilities for the internal audit activities;
- (ii) Approving the internal audit objectives and risk-based priorities;
- (iii) Approving the quality and objectivity of internal audit activities;
- (iv) Reviewing reports on major issues arising from the internal audit activities and reporting to the Board as appropriate;
- (v) Undertaking access to those involved in the internal audit activities without the presence of management (save insofar as they are part of the internal audit activities); and
- (vi) Ensuring that the Chief Executive Officer states in writing to the Board annually that PA's financial reports present a true and fair view, in all material respects, of PA's financial condition and operational results are in accordance with the relevant accounting standards.

(c) External Audit

The Committee will monitor the performance and activities of the external auditor. Its responsibilities in this area include:

- (i) Overseeing the process for the appointment, re-appointment and removal of the external auditors (including audit engagement letters), overseeing the rotation of the principal audit partner and reviewing the level of the external auditors' fees;
- (ii) Assessing the performance and independence of the external auditors and the quality of the audit work performed;
- (iii) Requiring, reviewing and monitoring compliance with the audit plan of the external auditors, including the scope of the plan and the levels of financial statement materiality;
- (iv) Reviewing reports from the external auditors and meeting with the external auditors at least once annually in the absence of management and also meeting with the external auditors as requested by the Board, the Committee or the external auditors;
- (v) Receiving, reviewing, developing and implementing policy on the engaging of the external auditors to supply non-audit services; and
- (vi) Meeting with the external auditors in the absence of management.

(d) Risk Management

The Committee will oversee and review PA's financial and risk management compliance and internal control framework. Such review must occur at least once in each financial year. The Committee's responsibilities in this area include:

- (i) Overseeing the creation, implementation and maintenance of the risk management policy of PA and its internal control framework, including information and technology systems;
- (ii) Establishing a risk profile for PA, setting out both financial and non-financial material risks facing PA;
- (iii) Reviewing the effectiveness of PA's implementation of its risk management policy and internal controls on an on-going basis and reviewing the outcome of any non-financial audits;
- (iv) Seeking to reach a common understanding with management and auditors about the risk management process, key financial, operational and regulatory risks and related controls including focusing on the "key" risks which are considered to be currently, or may in the future be, more significant or more likely to occur;
- (v) Analysing the effectiveness of PA's risk management and internal compliance system and the effectiveness of their implementation;
- (vi) Developing an understanding of the overall business environment, relevant laws, regulations and codes of importance to PA and the programmes that PA has in place to provide reasonable assurance of compliance with those laws, regulations and codes of practice;
- (vii) Developing an understanding of the framework in place to protect against cyber risk, including risk mitigation strategies, and the process to monitor and review same; and
- (viii) Ensuring that the Chief Executive Officer or Chief Operating Officer (or equivalent) state in writing to the Board annually that:
 - (A) There is compliance with applicable laws, regulations, standards and best practice guidelines;
 - (B) PA's risk management and internal compliance and control system is operating efficiently and effectively in all material respects; and
 - (C) Insurance coverage for the organisation and the Directors and Officers has been reviewed and is appropriate.

(e) Conflict of Interest

- (i) Once a year, Committee members must provide written declarations to the Board stating they do not have any conflicts of interest or related party transactions that would preclude them from being members of the Committee.
- (ii) Committee members must declare any conflicts of interest at the start of each meeting or before discussion of the relevant agenda item or topic.
- (iii) Details of any conflict of interest should be appropriately minuted.

- (iv) Where members at Committee meetings are deemed to have a real or perceived conflict of interest, it may be appropriate that they are excused from Committee deliberations on the issue where a conflict of interest exists. Minutes should note any Committee members absent (and the time period absent) for any deliberations or decisions.

4.2 OTHER DUTIES AND RESPONSIBILITIES

The Committee is required to:

- (a) Review disclosures within the Annual Report and other public documents, including a statement in the annual report detailing the Committee's activities, the composition and membership of the Committee, the number of Committee meetings and attendance over the course of the year, and the policy in relation to provision of non-audit services by the external auditors.

4.3 PROVISION OF SERVICES BY EXTERNAL AUDITOR

In regard to the provision of non-audit services by the external auditors, the following guidelines have been agreed by the Board:

- (a) The external auditors must not provide services which are considered to be in conflict with the role of the statutory auditor. The services which must not be provided include investigations and consulting advice, or sub-contracting of activities normally undertaken by management, where the external auditors may ultimately be required to express an opinion on their own work. Examples of services that should not be provided by the external auditors include:
 - (i) Preparation of accounting records and financial statements;
 - (ii) Design and implementation of new IT systems and financial controls;
 - (iii) Valuation services in relation to amounts which are included in PA's accounts;
 - (iv) Actuarial services;
 - (v) Internal audit services;
 - (vi) Management functions, including senior management secondments;
 - (vii) Recruitment and human resource services;
 - (viii) Broker, dealer or investment advisor services; and
 - (ix) Legal services.
- (b) The external auditors will be permitted to provide non-audit services that are not perceived to be in conflict with the role of the auditors. Examples of services that may be provided without Committee approval include:
 - (i) Tax compliance services;
 - (ii) Advice on application of appropriate accounting standards; and
 - (iii) Audits or verification of regulatory returns.

- (c) The external auditors may be permitted to provide non-audit services where their detailed knowledge of PA's activities could permit cost and output efficiencies, provided stringent independence requirements are satisfied. These services, based on recommendations from management, must be approved by the Chair of the Committee who will consult with the other members of the Committee, the external auditors and management, as appropriate. Examples of such services include:
 - (i) Strategic tax advice;
 - (ii) Due diligence on potential acquisitions/investments;
 - (iii) Investigating accounting assignments; and
 - (vi) Corporate finance advice (deal structuring and execution), including independent accountant's statements.
- (d) The Committee will recommend to the Board, on a totally transparent basis, the appropriate disclosure in the annual accounts of the full details of fees paid to the external auditors.

5. COMPOSITION AND STRUCTURE OF THE COMMITTEE

5.1 NUMBER OF MEMBERS

- (a) The Committee shall be appointed by the Board and shall consist of:
 - (i) No less than three and no more than five members (with both genders to be represented); and must comprise of:
 - (A) At least one person who is a Director of PA;
 - (B) At least one person who is external and an independent CPA or CA (Chartered Accountant);
 - (C) At least one person with industry experience or a thorough working knowledge in risk management processes, assessment and/or treatment; and
 - (D) At least one person who is an insurance or risk management specialist or who has working knowledge in insurance industry or risk management generally.
- (b) A representative from PA management (with experience in the financial management of PA) and a representative of the external auditors shall attend meetings as required. Other Directors may also attend but do not have decision making powers.

5.2 TERM OF OFFICE

Each member of the Committee will be appointed for a term of two years, subject to earlier resignation or removal by the Board. Upon completion of a term, the member may be re-appointed to the Committee. Where practical, the term of office of the members of the committee will be staggered so that the members retire on a rotational basis and a level of continuity of knowledge is achieved.

5.3 EXPERTISE

All members of the Committee are expected to have some knowledge of financial reporting obligations generally. Unless the Board determines otherwise, the Chair and at least one member of the Committee must have recent accounting or related financial expertise.

At least one member of the Committee must have an understanding and working knowledge of the sectors in which PA operates.

5.4 SECRETARY

The Chief Executive Officer or Chief Operating Officer (or equivalent) will be Secretary of the Committee and will attend all meetings of the Committee.

6. CHAIR

6.1 CHAIR

The Board shall appoint one of the Committee members to be the Committee Chair. Such person must be:

- (a) A member of the Committee; and
- (b) Must not also be Chair of the Board.

6.2 CHAIR OF MEETINGS

In the absence of the Chair of the Committee, the remaining members will elect one of their number as chair of the meeting. The Chair of the Committee does not have a casting vote.

7. PROCEEDINGS OF THE COMMITTEE

7.1 FREQUENCY AND NOTICE

- (a) The Committee will meet as frequently as required but must meet not less than four times in each financial year. Meetings, where appropriate, should coincide with key dates in PA's financial reporting cycle.
- (b) The dates, times and venues of each meeting of the Committee will be advised by the Chief Executive Officer or Chief Operating Officer (or equivalent) at a reasonable time in advance of the meeting.
- (c) The Secretary to the Committee or any member may call a meeting of the Committee.
- (d) In addition, the Chair of the Board is required to call a meeting of the Committee when requested to do so by a Committee member, the Chief Executive Officer or Chief Operating Officer (or equivalent), or the external auditors.

7.2 COMMITTEE PAPERS

Supporting papers for each meeting of the Committee will be distributed a reasonable time in advance of the meeting to the following:

- (a) Each member of the Committee;

- (b) Each Director who has advised the Chief Executive Officer or Chief Operating Officer (or equivalent) that they will be attending that meeting of the Committee; and
- (c) Any other person invited to attend. Distribution to such other persons being to the extent determined by the Chair of the Committee.

7.3 MEETING QUORUM

A quorum for a meeting of the Committee is three members. A duly convened meeting of the Committee at which a quorum is present is competent to exercise all or any of the authorities, powers or discretions vested in, or exercisable by, the Committee.

7.4 ATTENDANCE OF OTHERS

- (a) The only persons entitled to be present at a Committee meeting are:
 - (i) The members of the Committee; and
 - (ii) Any Director who has advised the Chief Executive Officer or Chief Operating Officer (or equivalent) that he or she will be attending that meeting of the Committee.
- (b) The Committee may extend an invitation to any person to attend all or part of the meeting of the Committee which it considers appropriate. In particular, the Committee may meet with:
 - (i) The external auditors;
 - (ii) External advisers;
 - (iii) Any executive or employee;
 - (iv) Any other Director; or
 - (v) Any other person whose attendance may be relevant to the agenda items to be tabled.
- (c) The Committee must meet with the internal and external auditors at least once a year without senior management (except in the case of any member of the senior management who is the internal auditor) being present.

7.5 MINUTES OF THE MEETING

- (a) Minutes of meetings of the Committee must be prepared and circulated to the Chair for approval within two weeks of the meeting, approved by the Chair and then circulated to all members of the Committee.
- (b) After confirmation, the minutes must be distributed to all Directors, ordinarily for the Board meeting next following the Committee meeting to which the minutes relate.

8. INDEPENDENT ADVICE AND ACCESS TO INFORMATION

8.1 INDEPENDENT ADVICE

The Committee is authorised to obtain and secure the services of outside legal and other

independent professional advice and must seek the approval of the Chief Executive Officer or Chief Operating Officer (or equivalent) prior to doing so.

8.2 AUTHORITY OF THE COMMITTEE

The Committee is authorised to investigate any activity or function of PA, its controlled entities (if any) and, so far as it is practicable, its associates, in accordance with this Terms of Reference. The Committee is authorised to make recommendations to the Board regarding appropriate actions resulting from such investigations.

8.3 ACCESS

The Committee has unrestricted access to all PA records and relevant information and rights to seek explanations and information from all members, senior management, employees and all tax and other financial advisers, legal advisers and the external auditors, without management being present.

9. REPORTING

9.1 REPORTING TO THE BOARD

- (a) The Chair of the Committee (or a person nominated by the Chair of the Committee for that purpose) must:
 - (i) Report to the Board on the Committee's proceedings:
 - (A) At the Board meeting following each meeting of the Committee, on all matters relevant to the Committee's duties, responsibilities and authorities; and
 - (B) Immediately in the case of urgency.
 - (ii) Attend the Board meeting at which PA's financial statements are approved.

9.2 SPECIFIC REPORTING ISSUES

Without limiting clause 9.1 the Committee will report regularly to the Board by providing:

- (a) An assessment of whether external reporting is consistent with the Committee's information and knowledge, and if this external reporting is adequate for member needs;
- (b) An assessment of the management process supporting external reporting;
- (c) Any recommendations for changes to the financial statements;
- (d) The Committee's guidelines for the selection and appointment of the external auditors and for rotation of external audit engagement partners;
- (e) Any recommendations for appointment or removal of external auditors;
- (f) A report on its assessment of the performance and independence of the external auditors and a statement for the Board for inclusion in the annual report as to whether the Committee is satisfied that the provision of any non-audit services is compatible with the independence of the external auditors;
- (g) Any material issues arising from the internal audit activities;

- (h) The results of its review of risk management and internal compliance and control systems; and
- (i) Reports or information as otherwise required by the Board from time to time.

10. REVIEW OF TERMS OF REFERENCE

10.1 REVIEW OF TERMS OF REFERENCE

The Board and Committee will review this Terms of Reference every two years or more frequently as the Board or Committee determines. The Committee is free to recommend to the Board any changes it determines necessary or desirable.

10.2 REVIEW OF PERFORMANCE

The Committee should conduct an annual review of its performance and effectiveness, inviting comments from all members of the Board. It may recommend to the Board any suggested changes in the duties and responsibilities of the committee and the terms of this Terms of Reference.

11. ACCESS TO TERMS OF REFERENCE

This Terms of Reference will be available for viewing by any person on PA's website or a copy will be sent to members upon request.