

# **AUDIT AND BUDGET COMMITTEE**

**TERMS OF REFERENCE**

**FEBRUARY 2019**

## Nusantara Resources Limited

(The "Company")

### AUDIT and BUDGET COMMITTEE - TERMS OF REFERENCE

#### 1. Constitution

The Audit and Budget Committee ("Committee") is a committee of the board of Directors ("Board").

This Terms of Reference is consistent with the Australian Corporate Governance Principles and Recommendations published by the ASX Corporate Governance Council.

#### 2. Membership

The Committee shall be appointed by the Board from amongst the non-executive Directors of the Company and shall consist of not less than three members.

The Chairman of the Committee shall be appointed by the Board from amongst the Independent Non-Executive Directors ("INED").

#### 3. Attendance at meetings

A quorum shall be two members of the Committee, one of whom must be an INED.

The Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer and the representative(s) of the external auditors may be invited regularly to attend meetings. Other Board members shall also have the right of attendance. However, at least once a year the Committee shall meet with the external auditors without executive Board members present.

The Company Secretary shall be the secretary of the Committee.

#### 4. Frequency of meetings

Meetings shall be held not less than four times a year. The external auditors may request a meeting if they consider that one is necessary.

#### 5. Authority

The Committee is authorised by the Board to investigate any activity within its Terms of Reference. It is authorised to seek any information it requires from any employee or executive Director, and all employees are directed to co-operate with any request made by the Committee.

The Committee is authorised by the Board, and at reasonable expense of the Company, to obtain outside legal or other independent professional advice and, having ensured the Company's interests are protected, to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

#### 6. Access

The Committee shall have unlimited access to internal audit and the external auditors, senior management and other employees of the Company and its subsidiaries. The Committee shall also have the ability to consult independent experts and retain persons having particular skills and expertise where it considers it necessary to carry out

its duties. The Committee does not have executive powers but advises the Board of its recommendations.

needed and making recommendations as to the steps to be taken;

## 7. Roles and responsibilities

The roles and responsibilities of the Committee shall be:

### 7.1 Relationship with external auditors

- (a) to consider and make recommendations to the Board on the appointment, reappointment and removal of the external auditor (and to approve the remuneration and terms of engagement of the external auditor) and any questions of resignation or dismissal of that auditor;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, "external auditor" shall include any entity that is under common control, ownership or management with the audit firm, or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is

### 7.2 Review of financial information of the Company

- (a) to monitor the integrity of financial statements of the Company and the Company's annual report and accounts, half-yearly report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In this regard, in reviewing the Company's annual report and accounts, half-yearly report and, if prepared for publication, quarterly reports before submission to the Board, the Committee should focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments and issues resulting from audit;
  - (iv) treatment and disclosure of any complex or unusual transactions;
  - (v) the going concern assumptions and any qualifications;
  - (vi) compliance with accounting standards; and
  - (vii) compliance with the ASX Listing Rules and other legal requirements in relation to financial reporting;
- (b) In regard to section 7.2(a) above:
  - (i) the Committee should review the annual written attestations from the Chief

Executive Officer and Chief Financial Officer in relation to the financial statements, financial reporting system and internal control procedures;

- (ii) members of the Committee must liaise with the Board, senior management and the Chief Financial Officer, and the Committee must meet at least once a year with the Company's auditors; and
- (iii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's Chief Financial Officer, compliance officer or auditors and make appropriate recommendations to the Board;

### **7.3 Oversight of the Company's financial reporting system and internal control procedures**

- (a) to evaluate the adequacy of the Company's accounting control system by reviewing written reports from the external auditors, and monitor management's responses and actions to correct any noted deficiencies;
- (b) to review the adequacy and effectiveness of the Company's financial controls, internal control and risk management systems through active communication with management, internal audit and the external auditors;
- (c) to discuss with management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- (d) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- (e) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;
- (f) where an internal audit function exists, to assess the performance and objectivity of the internal audit function and to make recommendations for the appointment and dismissal of the Head of Internal Audit;
- (g) to review the Group's financial and accounting policies and practices;
- (h) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- (i) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

#### **7.4 Risk management**

- (a) to respond to any requests for assistance from the Board in its role in overseeing risk management; and
- (b) to review the adequacy and effectiveness of the risk management systems as required by paragraph 7.3 (b) in relation to the Company's financial reporting system and internal control procedures.

#### **7.5 Budget oversight**

- (a) To review the Company's annual budget and forecast updates prior to presentation to the Board;
- (b) oversight of the Company's actual performance versus budget, the investigation of material variances and the development of recommendations to the Company's Board in relation to such variances; and
- (c) to consider other topics, as defined by the Board.

### **8. Reporting procedures**

Secretary shall circulate the minutes of meetings and reports and/or recommendations of the Committee to all members of the Board.

### **9. Appointment of external auditors**

#### **9.1 Responsibility**

The Committee is directly responsible for making recommendations to the Board on the appointment, reappointment or replacement (subject, if applicable, to shareholder ratification) and remuneration of, and monitoring the effectiveness of, and independence

of, external auditors, including resolution of disagreements between management and the auditor regarding financial reporting.

The Committee shall pre-approve all audit and non-audit services provided by the external auditors and shall not engage the external auditors to perform any non-audit/assurance services that may impair or appear to impair the external auditor's judgement or independence in respect of the Company. The Committee may delegate pre-approval authority to a member of the Committee. The decisions of any Committee member to whom pre-approval authority is delegated must be presented to the full Committee at its next scheduled meeting.

#### **9.2 Selection criteria**

##### **(a) Mandatory criteria**

Candidates for the position of external auditor of the Company must be able to demonstrate complete independence from the Company and an ability to maintain independence through the engagement period. Further, the successful candidate must have arrangements in place for the rotation of the audit engagement partner and review partner on a regular basis.

##### **(b) Other criteria**

Other than the mandatory criteria mentioned above, the Committee may select an external auditor based on criteria relevant to the business of the Company, such as experience in the industry in which the Company operates, references, cost and any other matters deemed relevant by the Committee.

### **9.3 Review**

The Board annually reviews the external auditor to determine its adequacy and effectiveness for current circumstances. The Committee may make recommendations to the Board in relation to the external auditor's purpose and responsibilities.

### **10. Assessment of the external audit**

The Committee annually obtains and reviews a report by the external auditors describing (or meets, discusses and documents the following with them):

- (a) the audit firm's internal quality control procedures;
- (b) 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
- (c) all relationships between the external auditor and the Company (to assess the auditor's independence).

### **11. No rights created**

This Terms of Reference is a statement of broad policies and is intended as a component of the flexible governance framework within which the committees of the Board assist the Board in directing the affairs of the Company. While it should be interpreted in the context of all applicable laws, regulations, the ASX Listing Rules, it is not

intended to establish any legally binding obligations.

### **12. Review**

The Board annually reviews the membership and Terms of Reference of the Committee to determine its adequacy and effectiveness for current circumstances. The Committee may make recommendations to the Board in relation to the Committee's membership, purpose and responsibilities.