

# **Audit and Risk Management Committee Charter**

**Appen Limited**  
ACN 138 878 298

# Audit and Risk Management Committee Charter

## 1 Introduction

- 1.1 This Charter governs the roles, responsibilities, composition and membership of the Audit and Risk Management Committee (**Committee**) of Appen Limited (**Company**).
- 1.2 The Committee is a committee of the Board established in accordance with the Company's constitution and is authorised by the Board to assist it in fulfilling its statutory and regulatory responsibilities. It has the authority and power to exercise the responsibilities set out in this charter and under any separate matters granted to it by the Board from time to time. Whilst granting this power, the Board retains overall responsibility for the functions delegated by it to the Committee.
- 1.3 The conduct of the Committee is also governed, where applicable, by the constitution of the Company (**Constitution**).

## 2 Objectives

### 2.1 Audit

The purpose of the Committee is to assist the board of Directors of the Company (**Board**) in fulfilling its statutory, corporate governance and oversight responsibilities by:

- (1) monitoring and reviewing:
  - (a) the integrity of the Company's internal financial reporting and external financial statements;
  - (b) the effectiveness of internal financial controls;
  - (c) accounting and tax and related policies;
  - (d) the independence, objectivity and performance of external auditors;
  - (e) the performance of the Company's internal audit function and review of their audits; and
  - (f) the policies on risk oversight and management; and
- (2) making recommendations to the Board in relation to the appointment of external auditors and approving the remuneration and terms of their engagement.

### 2.2 Risk management

The purpose of the Committee is to also assist the Board in fulfilling its responsibilities relating to the risk management and compliance practices of the Company. This includes ensuring that non-financial risk management processes are being adhered to and that the appropriate treatments and controls are being maintained for all identified non-financial risks.

## **3 Composition**

### **3.1 Members**

To the extent practicable given the size and composition of the Board from time to time, the Committee will have at least three members, all of whom must be non-executive Directors and a majority of whom are independent Directors. The members of the Committee will be appointed and removed by the Board.

### **3.2 Expertise**

Each member of the Committee must be able to read and understand financial statements.

To the extent practicable given the size and composition of the Board from time to time, the Committee must include:

- (1) at least 1 member who has financial expertise, that is, a qualified accountant or other professional with experience of financial and accounting matters;
- (2) all members are financially literate, that is, are able to read and understand financial statements; and
- (3) some members who have an understanding of the industry in which the Company operates.

Members of the Committee must have an appropriate level of understanding of the principles of corporate governance, including knowledge of the Australian Securities Exchange (**ASX**) Corporate Governance Principles and Recommendations (**Recommendations**).

The Annual Report for a relevant financial year will disclose the relevant qualifications and experience of the members of the Committee.

### **3.3 Chair and Secretary**

To the extent practicable given the size and composition of the Board from time to time, the Board will appoint an independent chairperson to the Committee (**Chair**). The Chair must not be the chairperson of the Board.

The Company secretary will act as secretary of the Committee (**Secretary**) unless determined otherwise by the Board.

## **4 Meetings**

### **4.1 Frequency**

The Committee will meet as frequently as required in order to undertake its role effectively.

The Secretary must call a meeting of the Committee if requested to do so by any member of the Committee, the external or internal auditor or the chairperson of the Committee or Board.

### **4.2 Agenda and notice**

The Secretary will be responsible, in conjunction with the Chair and management, for drawing up the agenda (supported by any necessary explanatory documentation) and circulating it to Committee members prior to each meeting. The Secretary must notify

members of the Committee of the date, time and location of Committee meetings as far in advance as possible.

#### **4.3 Quorum**

A quorum for Committee meetings will be at least 2 members.

#### **4.4 Minutes**

The Secretary is responsible for taking minutes of each meeting and distributing them to Committee members as soon as practicable after the close of the meeting.

#### **4.5 Attendance**

The Committee may invite any person to attend part or all of any meeting of the Committee as it considers appropriate. Voting at Committee meetings is restricted to Committee members. Any member of the Board may attend a meeting of the Committee.

The Chief Executive Officer and Chief Financial Officer are expected to attend each scheduled meeting of the Committee and a standing invitation will be issued to the external auditor and internal auditor.

The Annual Report for a relevant financial year will disclose the number of times the Committee met throughout that financial year and the individual attendance of each member of the Committee at those meetings.

### **5 Powers**

#### **5.1 Access**

The Committee has unrestricted access to management, external auditors and all Company records for the purpose of carrying out its responsibilities under this Charter.

The Committee will meet with external auditors, in the absence of management, as often as required, but not less than once a year.

#### **5.2 Investigations**

The Committee has the power to interview management and, without management present, to:

- (1) conduct any investigations;
- (2) seek explanations and additional information;
- (3) engage any independent experts; and
- (4) interview any external auditors.

The Committee has the power to engage any independent experts that it considers necessary or appropriate to help it fulfil its duties. Costs associated with these investigations will be borne by the Company.

## **6 Responsibilities**

### **6.1 Risk oversight and management policies**

The Committee is responsible for providing the Board with advice and recommendations regarding the ongoing development of risk oversight and management policies that set out the roles and respective accountabilities of the Board, the Committee and management.

The policies should cover the areas of oversight, risk profile, risk management, risk appetite, compliance and control and assessment of adequacy and effectiveness.

### **6.2 Risk management and internal control environment**

The Committee shall consider and use its reasonable endeavours to:

- (1) maintain an up-to-date understanding of areas where the Company is, or may be, exposed to risk and compliance issues and check that management is effectively managing those issues, such as:
  - (a) non-compliance with laws, regulations, standards and best practice guidelines including industrial relation, occupational health and safety, environmental and trade practice laws;
  - (b) important judgements and accounting estimates;
  - (c) litigation and claims;
  - (d) fraud, theft or other breakdown of the entity's internal controls;
  - (e) economic, environmental, (including climate risk), and social sustainability risks; and
  - (f) relevant business risks not dealt with by other Board committees;
- (2) receive reports concerning material and actual incidents within the risk areas above and ensuring that macro risks are reported to the Board at least annually;
- (3) review the adequacy and effectiveness of the Company's policies and procedures which relate to risk management and compliance and reviewing the completeness and accuracy of the Company's principal corporate governance practices as required by ASX Listing Rules;
- (4) review material documents and reports prepared for lodgement with regulators, assessing their impact on the Company and making recommendations to the Board on their approval or amendment;
- (5) make recommendations to the Board on the appropriate risk and risk management reporting requirements;
- (6) meet periodically with senior key officers of the Company, external auditors and compliance staff to understand the Company's risk management and internal compliance and control system;
- (7) provide advice to the Board on relevant corporate level performance indicators and targets for risk management and compliance activities;
- (8) undertake an annual review of risk management policy and underlying strategies and procedures to check its continued application and relevance;

- (9) examine and evaluating the effectiveness of the internal control system with management and internal and external auditors;
- (10) if considered necessary by the Committee, establish a periodic and independent review of the implementation and effectiveness of the risk management policy to provide objective feedback to the Board as to its effectiveness;
- (11) receive and consider reports on risk management and compliance programs and performance against policy and strategic targets;
- (12) make recommendations to the Board in relation to changes that should be made to the Company's risk management framework or to the risk appetite set by the Board;
- (13) review the adequacy of the Company's insurance coverage, having regard to the Company's business and the insurable risks associated with its business;
- (14) review and recommend to the Board the annual insurance renewal program;
- (15) examine any matters referred to it by the Board; and
- (16) oversee the preparation of summaries and making recommendations to the Board:
  - (a) of main internal and external risk sources that could adversely affect the Company's prospects for future financial years, for inclusion in the operating and financial review section of the directors' report;
  - (b) on economic, environmental (including climate risk), governance and social sustainability risks; and
  - (c) for the Company's Corporate Governance Statement in the Company's annual report or on its website, including in relation to each reporting period:
    - (i) whether the review of the Company's risk management framework has taken place and, if appropriate, insights gained from the review and changes made as a result; and
    - (ii) whether the Company has any material exposure to economic, environmental and social sustainability risks, and if so, how they intend to manage those risks.

### 6.3 External auditors

The responsibilities of the Committee include:

- (1) providing a link between the external auditors and the Board;
- (2) monitoring the effectiveness and independence of the external auditor, and assessing their performance on an annual basis;
- (3) reviewing procedures for the selection and appointment of external auditors;
- (4) reviewing and providing recommendations on the rotation of external audit engagement partners;
- (5) recommending the appointment, remuneration and terms of engagement of the external auditors to the Board;

- (6) making recommendations to the Board on the removal of the external auditor;
- (7) agreeing the terms of engagement of the external auditor before the start of each audit;
- (8) reviewing the external auditor's fee and being satisfied that an effective, comprehensive and complete audit can be conducted for the external auditor's set fee;
- (9) reviewing and making recommendations on the scope and adequacy of the external audit, and any additional procedures with the external auditor, for Board approval;
- (10) reviewing all representation letters signed by management and ensuring all information provided is complete and appropriate;
- (11) reviewing and providing oversight of audit reports prepared and issued by the external auditors;
- (12) monitoring and examining management's response to the external auditor's findings and recommendations;
- (13) using reasonable endeavours to ensure that no management or other restrictions are placed on the external auditors;
- (14) reviewing the external auditor's independence based on the external auditor's relationships and services with the Company and other organisations;
- (15) assessing whether the external auditor's provision of non-audit services impairs or appears to impair their judgement or independence by reports to the Committee on a six-monthly basis and, if required, developing policies for Board approval to address this risk; and
- (16) reviewing and making recommendations on any proposal for the external auditor to provide non-audit services and whether it might compromise the independence of the external auditor.

#### 6.4 **Review of financial reports**

The Committee is responsible for:

- (1) making recommendation to the Board as to whether the Company's financial statements reflect the understanding of the members of the Committee of, and otherwise provide a true and fair view of, the financial position and performance of the Company;
- (2) overseeing that appropriate risk management and internal control processes are in place to form the basis upon which the CEO and CFO make their declarations to the Board under section 295A of the *Corporations Act 2001* (Cth) and Principle 4 of the ASX Corporate Governance Principles and Recommendations;
- (3) reviewing financial statements for adherence to accounting standards and policies and the requirements of the ASX Listing Rules and the *Corporations Act 2001* (Cth) (including continuous disclosure requirements);
- (4) reviewing and assessing the appropriateness of material estimates and accounting judgments exercised by management in preparing the Company's financial reports

by examining the processes used and seeking verification of those estimates from external auditors;

- (5) assessing information from internal and external auditors that affects the quality of financial reports;
- (6) reviewing accounting policies adopted by the Company and any changes made to them;
- (7) asking the external auditor for an independent judgment about the appropriateness of the accounting policies adopted by management and the clarity of financial disclosure practices used by the Company;
- (8) reviewing management's processes for compliance with laws, regulations, adherence to accounting standards and other requirements relating to the preparation of accounts and external reporting by the Company of financial and non-financial information;
- (9) discussing any significant matters arising from the audit, management judgments and accounting estimates with management and external auditors if appropriate;
- (10) reviewing climate related financial disclosures in the Annual Report;
- (11) reviewing the disclosure of the process used to verify the integrity of any periodic corporate report released to the market which is not audited or reviewed by an external auditor;
- (12) reviewing, and where necessary challenging, the actions, choices and judgment of management in relation to all financial reports; and
- (13) recommending to the Board whether the financial statements should be signed based on the Committee's assessment of them.

## 6.5 Internal audit

The aim of the internal audit function is to bring a systematic approach to evaluating and improving the effectiveness of the Company's governance, risk and internal controls. The Committee's role is to oversee the effectiveness, independence and objectivity of the internal audit and report to the Board in relation to the internal audit.

In particular, the Committee is responsible for:

- (1) overseeing the Company's internal audit function generally;
- (2) approving the internal audit charter;
- (3) approving the appointment of the head of internal audit;
- (4) arranging for the internal auditor to report directly to the Committee;
- (5) overseeing the performance and objectivity of the internal audit function including having access to the internal audit function without management present;
- (6) review the proposed internal audit plan for appropriateness having particular regard to risk and resourcing of the function;
- (7) approving the audit plan;

- (8) evaluating the effectiveness of the internal audit plan and work program, and considering the implications of the internal audit findings;
- (9) evaluating management's responses to the internal auditor's findings and recommendations;
- (10) obtaining feedback from management and the external auditor on an annual basis about the effectiveness of the internal audit function.

## 6.6 **Related party transactions**

The Committee is responsible for reviewing and monitoring the propriety of related party transactions.

## 6.7 **Tax**

The Committee is responsible for:

- (1) overseeing tax risk management;
- (2) reviewing the adequacy and effectiveness of the Company's Group Tax Risk Framework, including policies, processes and procedures, and making recommendations to the Board;
- (3) monitoring compliance with key taxation changes; and
- (4) assessing and making recommendations to the Board in relation to appropriate tax risk tolerance.

# 7 **Reporting**

## 7.1 **Reporting to the Board**

The Committee must report to the Board, at the first Board meeting subsequent to each Committee meeting, regarding the proceedings of each Committee meeting, the outcomes of the Committee's reviews and recommendations and any other relevant issues. The report must also include, at a minimum, all matters relevant to the Committee's role and responsibilities, including:

- (1) an assessment of whether external reporting is in line with the information and knowledge of the Committee and whether it is adequate for the needs of the Company's shareholders;
- (2) an assessment of the internal management processes which support external reporting;
- (3) procedures for the selection and appointment of the external auditor and for the rotation of external audit engagement partners;
- (4) assessment of the performance and independence of the external auditors and, where the external auditors provide non-audit services, whether the independence of the external auditors has been maintained; and
- (5) the results of the Committee's review of risk management and internal compliance and control systems.

## 7.2 **Annual Report**

The Committee must provide the Board with advice and recommendations regarding the appropriate material and disclosures to be included in the Corporate Governance Statement and Operating and Financial Review of the Company's annual report which relate to the Company's audit and risk management policies and practices.

The Committee is responsible for reviewing the Corporate Governance Statement.

The Operating and Financial Review in the Company's Annual Report should include a discussion of environmental and other sustainability risks where those risks could affect the entity's achievement of its financial performance or outcomes disclosed, taking into account the nature and business of the entity and its business strategy (and otherwise comply with ASIC Regulatory Guide 247).

## **8 Committee's performance evaluation**

8.1 The Committee will review its performance from time to time.

8.2 The performance evaluation will have regard to the extent to which the Committee has met its responsibilities in terms of this Charter.

## **9 Review and publication of Charter**

9.1 This Charter shall be reviewed annually with the purpose determining its relevance to the current needs of the Company and amendments approved by a resolution of the Board. This Charter shall be made publicly available on the Company's website and the key features published in the Corporate Governance Statement.

Adopted on 26 June 2020