CPL

Audit Committee Charter

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1. Purpose

The AC will assist the Directors in discharging the Board's responsibilities of oversight and governance responsibilities in relation to financial and audit matters. The responsibilities of AC are to review and monitor the following:

a) The integrity of CPL's financial statements and the independent audit thereof;
b) The financial reporting principles and policies, controls, and procedures;
c) CPL's internal audit processes;
d) The effectiveness of internal controls;
e) The systems for ensuring operational efficiency and cost control;
f) The systems for approval and monitoring of expenditure, including capital expenditure; and
g) The processes for monitoring compliance with laws and regulations, and Management's implementation of the Board's decisions.

1.2. The AC will maintain effective working relationships with the Board, Senior Executive Management, Internal Auditors, and External Auditors in the performance of its duties. Each Committee member will obtain an understanding of the detailed responsibilities of Committee membership to perform his or her role effectively.

2. Authority

2.1. The Committee reports to the CPL Board. The Internal and External Auditors report to the Committee and ultimately to the Board.

2.2. The Board authorizes the AC, within the scope of its responsibilities and charter, to:

a) Seek any information or explanation it requires from external parties and/or any employee (and all employees are directed to cooperate with any request made by AC);
b) Obtain outside legal or other professional advice as necessary to assist the Committee; and
c) Ensure CPL employees attend scheduled Committee meetings as deemed appropriate.

2.3. Access
The Committee has unrestricted access to all records and employees of CPL (including Internal Auditor and the External Auditor without Management present) and has the right to seek explanations from Management and auditors.

2.4. The Committee shall provide regular reports to the Board of any Subsidiary of CPL, for which the Committee is delegated power to review and monitor all the audit and compliance activities of the relevant Subsidiary. All responsibilities of the committee as stated in the charter, shall apply to the review functions of the committee with respect to Subsidiary Board.

3. Scope of Responsibilities

The Committee will:

Fraud

3.1. Oversee Management's arrangements for the prevention and deterrence of fraud;

3.2. Ensure that appropriate action is taken against known perpetrators of fraud; and

3.3. Challenge Management, Internal Auditors, and External Auditors to ensure that CPL has appropriate anti-fraud programs and controls in place to identify potential fraud and ensure that investigations are undertaken if fraud is detected.

Internal controls

3.4. Evaluate whether Management is setting the appropriate "control culture" by communicating the importance of internal controls (policies and procedures) and ensuring that all employees have an understanding of their roles and responsibilities;

3.5. Monitor that Management is regularly reviewing its internal controls and revising policies and procedures, where necessary;
3.6. Consider how Management is held to account for the security of fixed assets, including computer systems and applications, and the contingency plans for processing financial information in the event of a systems breakdown; and
3.7. Gain an understanding of whether internal control recommendations made by Internal Audit and/or External Auditors have been implemented by Management. Reports are provided by the Internal Audit at each Committee meeting.

Financial Reporting General

3.8. Consider with the Internal Auditors and External Auditors any fraud, illegal acts, deficiencies in internal control or other similar issues and review Management risk reduction policies and practices implemented as a response to individual instances or incidents detected;
3.9. Review significant accounting and reporting issues, including industry and regulatory pronouncements, and understand their impact on the financial statements;
3.10. Inquire of Management, Internal Auditors and External Auditors about significant risks and exposures and the plans to minimize such risks; and
3.11. Review any legal matters, which could significantly affect the financial statements.

Financial statements

3.12. Review the half-yearly and annual audited financial statements and determine whether they are complete and consistent with the information known to Committee members and assess whether the financial statements reflect appropriate accounting principles;
3.13. Pay particular attention to complex and/or unusual transactions;
3.14. Focus on judgmental areas, for example those involving valuation of assets and liabilities, provisions, litigation reserves, and other commitments and contingencies;
3.15. Meet with Management and the External Auditors to review the financial statements and the results of the audit; and
3.16. Be satisfied with the accuracy of the financial accounts, reconcile to Management accounts presented to the Committee, and sign-off on the financial accounts of CPL before the financial statements are submitted to the Board.

Preliminary announcements, interim financial statements, briefings, and press releases

3.17. Assess the fairness of the preliminary statements and disclosures and obtain explanations from Management, Internal Auditors and/or External Auditors on whether:
    a) Actual financial results for the period varied significantly from budgeted or projected results;
    b) Changes in financial ratios and relationships in the interim financial statements are consistent with changes in CPL's operations and financing practices;
    c) Generally accepted accounting principles have been consistently applied;
    d) There are any changes in accounting or financial reporting practices;
    e) There are any significant or unusual events or transactions;
    f) CPL Group's financial and operating controls are functioning effectively; and
    g) The preliminary announcements and interim financial statements contain adequate and appropriate disclosures.

Internal audit

3.18. Review and approve the annual Internal Audit Plan to ensure it covers all material risks;

3.19. Review the scope of work activities of the Internal Audit function and ensure no unjustified restrictions or limitations are made;

3.20. Review the qualifications of and concur in the appointment, replacement, reassignment, or dismissal of the Internal Auditor;

3.21. Review the performance, objectivity, independence, and effectiveness of the Internal Audit function;

3.22. Meet separately with the Internal Auditor to discuss any matters that the Committee or the Internal Auditor believe should be discussed privately;

3.23. Ensure that significant findings and recommendations made by the Internal Auditor are received and discussed on a timely basis; and

3.24. Ensure that Management responds to recommendations by the Internal Auditor in a timely manner.

External audit

3.25. Ensure the timely calling of tenders for the provision of external auditing services from appropriately qualified companies in accordance with Board policy and prudential regulations;

3.26. Review tender submissions and make recommendations for appointment to the Board for subsequent recommendation to Shareholders;

3.27. Review the external auditor's terms of engagement and fees, proposed audit scope and approach, and ensure no unjustified restrictions or limitations have been placed on the scope;

3.28. Review the performance and effectiveness of External Auditors prior to contract renewal and make recommendations to the Board regarding their continuation during their term of appointment, which should be in line with the prudential requirements/standards of the various jurisdictions that CPL operates within, while ensuring their independence is in line with Board policy;

3.29. Meet separately with the External Auditors to discuss any matters that the Committee or the external auditors believe should be discussed privately;

3.30. Ensure that significant findings and recommendations made by the External Auditors are received and discussed on a timely basis; and

3.31. Ensure that Management responds to recommendations by the External Auditors in a timely manner.

Regulators

3.32. Ensure that significant findings and recommendations made by the regulators are received and discussed on a timely basis; and

3.33. Ensure that Management responds to recommendations by the regulators in a timely manner.

Compliance with laws and regulations

3.34. Review the effectiveness of systems for monitoring changes and compliance with all legal and regulatory obligations, CPL Constitution, and the results of Management's investigation and follow-up (including disciplinary actions) of any fraudulent acts or non- compliance;

3.35. Obtain regular updates from Management regarding changes and compliance with significant statutory requirements;

3.36. Review reports from Management concerning internal policies; the effectiveness of policies and adherence to review timetables.

3.37. Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements; and

3.38. The Chairman of the AC shall have the right to approach a regulator directly in the event of a prudential issue with such regulator arising.

Operational efficiency and cost control

3.39. Ensure that appropriate processes and authorization limits are established and implemented by Management covering all orders, contracts, payments, and any other commitments entered into by CPL;

3.40. Ensure the appropriateness of Management's procedures for the control of expenditure, including the preparation of annual budgets approved by the Board, timely production of management accounts showing actual performance against budget, and the follow-up of significant variances against budget; and

3.41. Ensure the appropriateness of Management's procedures for the development of capital expenditure budgets, Board approval processes, expenditure monitoring, cost overruns reporting, and justification outcomes, if appropriate.

Reporting responsibilities

3.42. Regularly updates to the Board about Committee activities and make appropriate recommendations, and

3.43. Ensure that the Board is aware of matters in a timely manner, which may significantly affect the financial condition or affairs of the business.

Other responsibilities

3.44. Ensure that the requirements of Papua New Guinea's National Stock Exchange (PNGX) guidelines are complied with;

3.45. Perform other oversight functions as delegated and/or requested by the Board;

3.46. Institute special investigations and, if appropriate, hire special counsellor experts to assist, if necessary; and

3.47. Evaluate the Committee's own performance on an annual basis.

Reporting on Audit Committee performance

3.48. The AC will report to the Board annually, summarizing the Committee's activities and recommendations. The report may be delivered during an Audit Committee meeting attended by the Board or during a regularly scheduled meeting of the Board. The report should include:

a) A summary of the work the Audit Committee performed to fully discharge its responsibilities during the preceding year;
b) A summary of Management's progress in addressing the results of internal and external audit engagement reports;
c) An overall assessment of Management's fraud risk, controls, and compliance processes, including details of any significant emerging risks or legislative changes impacting CPL;
d) Details of meetings, including the number of meetings held during the relevant period and the number of meetings each member attended;
e) Providing information required, if any, by new or emerging Corporate Governance developments; and
f) The Committee may report to the Board at any time regarding any other matter it deems of sufficient importance.

4. Membership

4.1. Committee members are formed from amongst the Non-Executive Directors excluding the Chairman. The Committee shall have a minimum of two (2) Non-Executive Directors, whom must be independent. The Board may appoint additional Non-Executive Non-Directors with specialized skills to assist the Committee.

4.2. Membership is reviewed by the Board annually.

4.3. Each member must be able to make a valuable contribution to the Committee. Each member must have a working familiarity with industry regulations, compliance requirements, general finance, and accounting practices.

4.4. The Chair of the Committee will be an appropriately experienced independent Non- Executive Director other than the Chairman of CPL and will be appointed by the Board.

4.5. A quorum for any meeting must be a minimum of two (2) members.

4.6. The Secretary of the Committee shall be a representative from the CPL Company Secretariat or such other person as nominated by the Committee. The Secretariat will

  a) prepare and send notices of meetings and agendas to committee members, and
  b) record, keep and distribute minutes of Committee meetings

4.7. The effect of ceasing to be a Director of the Board is the automatic termination of appointment as a member of the Committee, unless otherwise approved by the Board.

5. Meetings and Attendance

5.1. Routine Committee meetings are attended by the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Internal Auditor (IA). Any other company directors, members of Management, Internal Audit, Operational Risk, and/or parties external to CPL may be invited to attend any meeting of the Committee or part thereof.

5.2. External Auditors are invited to make presentations to the Committee, as appropriate, and this will generally be presentations relating to their half-yearly review and annual audit.

5.3. There shall be a minimum of Four (4) meetings per annum, with the schedules for such meetings established in conjunction with the Board Meeting schedule.

5.4. Special meetings may be convened as required. The Internal Auditor and/or the External Auditors may request the Committee Chair to convene a meeting, if necessary;

5.5. The members of the Committee present at the meeting have the authority to choose one of their members to chair that particular meeting should the Committee Chairman be absent from the meeting.

5.6. The agenda and supporting papers are delivered to the Committee members seven days in advance of the meeting or as exempted by the Chair. Additional papers may be tabled for discussion at the meeting at the discretion of the Chair of the meeting.

5.7. The agenda will normally comprise reports/presentations by CFO, Internal Auditor and External Auditors.

5.8. With respect to Corporate Governance, the Committee shall receive reports from major subsidiary Management, Boards or Audit Committees, on a basis as the Committee determines, and respond to issues raised as appropriate. The AC shall report to the Boards of Subsidiaries on material issues regarding the subsidiary where the AC is the Audit Committee for the subsidiary.

5.9. The proceedings of all meetings will be minuted. Minutes of meetings are adopted by the Committee and tabled at the subsequent AC meeting. The Committee, through its Chair, will report to the Board any matters that should be brought to the attention of the Board or any recommendations requiring Board approval and/or action at the earliest possible Board meeting after each Committee meeting.

6. Conflicts of Interest

6.1. The Board's Conflict of Interest policy applies to all proceedings of the Committee. In accordance with that policy, Committee members are required to declare any interests that could constitute an actual, potential or perceived conflict of interest with respect to their participation on the committee. Such declarations must be made on a member's appointment to the Committee and in relation to specific agenda items at the outset of each committee meeting.

7. Reporting

7.1. Minutes of Committee meetings shall be included in the Board papers for the next subsequent Board meeting. In addition, the Committee Chair shall, if required, provide a verbal report to the Board on the Committee's activities.

8. Review

8.1. The Board shall review this charter once every two years