

# Pacific Basin Shipping Limited

*(incorporated in Bermuda with limited liability)*  
(Stock Code: 2343)

## **AUDIT COMMITTEE TERMS OF REFERENCE**

**Approved and adopted on 1 March 2012**

### **1. Overall purpose / objectives**

The Audit Committee (the “AC”) is appointed by the Board of Directors (the “Board”) of Pacific Basin Shipping Limited (the “Company”) to assist the Board in discharging its oversight responsibilities. The AC will:

- (a) oversee the financial reporting process to ensure the balance, transparency and integrity of published financial information.
- (b) review the effectiveness of the Company’s financial controls, internal control and risk management system;
- (c) review the Company’s process for monitoring compliance with laws and regulations affecting financial reporting;
- (d) carry out the corporate governance functions;
- (e) develop and review the Company’s policies and practices on corporate governance and make recommendations to the Board; and
- (f) review the independent audit process and the effectiveness of any internal audit function.

### **2. Authority**

The Board authorises the AC, within the scope of its responsibilities, to:

- 2.1 Perform activities within the scope of its terms of reference.
- 2.2 Engage independent counsel and other advisers as it deems necessary to carry out its duties.
- 2.3 Ensure the attendance of company officers at meetings as appropriate.
- 2.4 Have unrestricted access to members of management, employees and relevant information.

- 2.5 Establish procedures for dealing with concerns of employees regarding possible improprieties in financial reporting, internal control or auditing matters and to ensure that proper arrangements are put in place for (1) the fair and independent investigation of such concerns and (2) any appropriate follow-up action to be taken to deal with such concerns.
- 2.6 Establish the procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters.
- 2.7 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.
- 2.8 Approve the remuneration and terms of engagement of the external auditor.
- 2.9 Approve professional services provided by auditors for non-audit functions in excess of US\$250,000 per annum.

### **3. Organisation**

#### **Membership**

- 3.1 The Board will nominate the AC members and its chairman.
- 3.2 The AC will comprise at least 3 members and the majority of the members shall be independent non-executive directors of the Company.
- 3.3 The chairman of the AC must be an independent non-executive director of the Company.
- 3.4 A quorum of any AC meeting will be 2 members.
- 3.5 Members will be appointed for a 3 year term of office, subject to re-election as Board member by shareholders at the annual general meeting of the Company.
- 3.6 The secretary of the AC will be the company secretary or such other person nominated by the Board.

#### **Meetings**

- 3.7 Only committee members are entitled to attend meetings. The AC may invite such other persons (e.g. the Company's Chairman, Chief Executive Officer, Deputy Chief Executive Officer, Chief Financial Officer, external audit engagement partner and other senior management) to its meetings, as it deems necessary.

- 3.8 Meetings shall be held not less than 2 times a year and should correspond with the Company's financial reporting cycle.
- 3.9 Agendas and accompanying papers regarding AC meetings should be sent in full to all directors in a timely manner (at least three days) in advance of each meeting,
- 3.10 Draft meeting minutes should be circulated to all committee members for their comments within a reasonable time after the meeting is held, and once approved the final record should be circulated to the Board and kept by the company secretary.
- 3.11 The AC will be accessible to the external auditors without management present should the external auditors require it.

#### **4. Roles and responsibilities**

The AC will:

##### **Internal control**

- 4.1 Evaluate whether management is setting the appropriate 'control culture' by communicating the importance of internal control and management of risk.
- 4.2 Evaluate the overall effectiveness of the internal control and risk management frameworks and consider whether recommendations made by the internal and external auditors have been appropriately dealt with by management.
- 4.3 Understand the controls and processes implemented by management to ensure that the financial statements derive from the underlying financial systems, comply with relevant standards and requirements, and are subject to appropriate management review.
- 4.4 Discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programme and budgets.
- 4.5 Consider any findings of major investigations of internal control matters as delegated by the Board or on the AC's own initiative and management's response in relation to such findings and investigations.
- 4.6 Consider how management is held to account for the security of computer systems and applications, and the contingency plans for processing financial information in the event of a systems breakdown or to protect against computer fraud or misuse.

##### **Financial reporting**

- 4.7 Gain an understanding of the current areas of greatest financial risk and how these are being managed.

- 4.8 Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, presented to the AC by management, the external auditors and other professional advisors so as to understand their impact on financial reports.
- 4.9 Oversee the periodic financial reporting process implemented by management and review the interim financial statements, annual financial statements and preliminary announcements prior to their release.
- 4.10 Meet with management and the external auditors to review the financial statements, annual report and accounts, half-year report, the key accounting policies and significant reporting judgements, and the results of the audit.
- 4.11 Ensure that significant adjustments, unadjusted differences, disagreements with management and critical accounting policies and practice are discussed with the external auditor.
- 4.12 To monitor the integrity of financial statements of the Company and the Company's annual report and accounts and half-yearly report.
- 4.13 In reviewing the Company's annual report and half-yearly report before submission to the Board, the AC should focus particularly on the following matters:
  - (a) any changes in accounting policies and practices;
  - (b) major judgmental areas;
  - (c) significant adjustments resulting from audit;
  - (d) the going concern assumptions and any qualifications;
  - (e) compliance with accounting standards; and
  - (f) compliance with the Listing Rules and other legal requirements in relation to financial reporting.
- 4.14 When discharging the AC's duties in regard to paragraph 4.13 above:
  - (a) members of the AC must liaise with the Company's Board of directors, Chief Financial Officer and other senior management;
  - (b) the AC must meet, at least twice a year, with the Company's external auditors;
  - (c) the AC should consider any significant issues reflected in the Company's annual and half-yearly reports; and
  - (d) the AC must give due consideration to any matters that have been raised by the Company's Chief Financial Officer, compliance officer or external auditors.

#### **Compliance with laws and regulations**

- 4.15 Review and monitor the effectiveness of the audit process in accordance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance.
- 4.16 Review updates from management and company's legal counsel regarding compliance matters that may have a material impact on the company's financial statements or compliance policies.

- 4.17 Be satisfied that all regulatory compliance matters, related to the business of the company, have been considered in the preparation of the financial statements.

### **Working with auditors**

#### **External audit**

- 4.18 Review and monitor the independence and objectivity of the external auditor and consider any potential conflicts of interest.
- 4.19 Before the audit commences, to discuss with the external auditor the nature and scope of the audit and reporting obligations and to review the approach for the current year in the light of the company's present circumstances and changes in regulatory and other requirements.
- 4.20 Review the external auditor's management letter and to ensure that the Board will provide a timely response to the issues raised in the external auditor's letter.
- 4.21 Review any material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control and management's response in relation to such queries; and ensure that significant findings and recommendations made by the external auditors and management's proposed response are received, discussed and appropriately acted on.
- 4.22 Discuss with the external auditor any unresolved audit problems encountered in the normal course of audit work, including any restriction on audit scope or access to information.
- 4.23 Discuss with the external auditor the appropriateness of the accounting policies applied in the company's financial reports and whether they are considered as aggressive, balanced or conservative.

#### **Internal audit**

- 4.24 Review any plan to develop the activities, resources and organisational structure of an internal audit function and ensure no unjustified restrictions or limitations are made.
- 4.25 Review the proposed internal audit plan for the coming year and ensure that it addresses key areas of risk and that there is appropriate coordination with the external auditor.

#### **Reporting responsibilities**

- 4.26 Periodically update the Board about AC activities and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and make appropriate recommendations as to the steps to be taken.
- 4.27 Review any reports required by law or listing rules or requested by the Board, for example a report on (i) the AC's activities and duties and (ii) the Company's corporate governance policy to be included in the section on corporate governance in the annual report.

### **Review of the committee terms of reference**

- 4.28 Review the AC terms of reference periodically, not less than every three years, and refer amended terms to the Board for approval.