

**The Hospitals  
Contribution Fund  
of Australia Ltd**

**ACN 000 026 746**

**(HCF)**

**AUDIT, RISK & COMPLIANCE  
COMMITTEE CHARTER**

(In accordance with the PHIAC  
Governance Standard)

**Board approval date: 25 March 2010**  
**Board Review dates: 26 August 2010**

## 1. Organisation

This Charter governs the role, responsibilities and operations of the parent company's Audit, Risk & Compliance Committee (the Committee).<sup>1</sup> The Committee shall review and reassess the charter at least annually and obtain approval of the Board of directors.<sup>2</sup>

### **1.1 Membership**

The committee shall comprise all the independent directors of the parent company, having at least 3 members.<sup>3</sup> The criteria for independence is set out below.

The Board believes that the duties to its contributors and business partners makes it inappropriate to delegate to a committee of only some of the independent directors the responsibility for such an important matter as audit, risk & compliance of the Group's businesses. Independent directors are therefore required to devote as much time and attention to audit matters as a dedicated committee of publicly listed financial services companies.

The Committee will be chaired by an independent director other than the Board chairman who has leadership experience and a strong finance, accounting and/or business background.<sup>4</sup>

All Committee members shall be financially literate, or become so after a reasonable period of time after appointment. At least one member shall have accounting and/or related financial management expertise.

Independence criteria of Directors,<sup>5</sup> which also applies to Audit, Risk & Compliance Committee members are:

1. The Directors must affirmatively determine whether or not a Director is independent, initially at the time of appointment or election and thereafter on a periodic basis. Each Director must provide the Directors with all information required by the Directors to make their determination. Each Director must also, whenever requested to do so, affirm to the Directors whether or not the Director is independent.
2. To be independent, a Director must be independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise by the Director of unfettered and independent judgment.

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<sup>1</sup> PHIAC Governance Standard - subparagraph 10(1) and 10(7)(a)

<sup>2</sup> PHIAC Governance Standard - paragraph 10(7) – Charter to be approved by Board

<sup>3</sup> PHIAC Governance Standard - paragraph 10(4)(a)

<sup>4</sup> PHIAC Governance Standard - paragraph 10(5) & (6)

<sup>5</sup> HCF Constitution – Schedule 5

3. A Director will be regarded as independent when the Director:
  - (a) has not within the last three years been employed in an executive capacity by the Company or any controlled entity of the Company, or been a Director after ceasing to hold that employment;
  - (b) has not within the last three years been associated with, or a principal of, a material professional advisor or material consultant to the Company or any controlled entity of the Company or an employee materially associated with the service provided;
  - (c) is not a material supplier or customer of the Company or any controlled entity of the Company or an officer of or otherwise directly or indirectly associated with a material supplier or customer and has no material contractual relationship with the Company or any controlled entity of the Company other than as a Director;
  - (d) has not served as a Director for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company (and, to the extent required by the Private Health Insurance Act 2007 the interests of the Contributors); and
  - (e) is otherwise free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company (and, to the extent required by the Private Health Insurance Act 2007 the interests of the Contributors).
4. The Directors may determine that a Director is independent notwithstanding the existence of a relationship (including any of these specific relationships), where the Directors determine that the relationship could not materially interfere with, or could not reasonably be perceived to materially interfere with, the exercise by the Director of unfettered and independent judgment.
5. A relationship is material where the value of goods or services provided to or by the Company over the past three years accounts, in aggregate, for more than 5% of the gross revenue or expenses of either the Company or the other party over that three year period.
6. Where the Directors determine that a Director is not independent, the Directors must decide the extent to which the lack of independence should be addressed by an alternative mechanism, such as:
  - (a) disclosure of the facts and circumstances giving rise to the lack of independence in the annual report of the Company;
  - (b) excluding the Director from being present at any meeting at which a matter that is compromised by the lack of independence is being considered or decided; and
  - (c) approving participation by the Director at any meeting at which a matter that is compromised by the lack of independence is being considered or decided, subject to any appropriate conditions.

Any or all of these alternative mechanisms may be appropriate in any given circumstances. The Directors will determine what is appropriate.

The Board has decided the company's interests are well served by having directors and committee members with specific expertise it requires who provide services to the company on normal commercial terms and conditions provided full disclosure is made to stakeholders in the Annual Report.

## **1.2 Purpose**

The Audit Committee assists directors in fulfilling their corporate governance and oversight responsibilities in relation to the company's financial reporting, internal control structure, risk management systems, and the internal and external audit functions.<sup>6</sup> The Committee will provide an objective, non-executive review of the effectiveness of HCF's financial reporting and risk management framework.<sup>7</sup> In doing so, it is the responsibility of the Committee to maintain free and open communication between the Committee, external auditors, the internal auditors, actuaries and management of the company.<sup>8</sup>

In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the company and the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties.<sup>9</sup> In particular, the Committee will have unfettered access at all reasonable times to the senior management, internal auditor, external auditor and appointed actuary of HCF.<sup>10</sup>

## **1.3 Meetings**

The Committee shall meet at least four times each year.<sup>11</sup> The purpose of these meetings is to:

1. Review and approve internal audit and external audit plans.<sup>12</sup>
2. Review and approve Risk and Compliance Management Strategy and implementation plans
3. Review and approve Fraud Risk Management Plan including Health Benefit Utilisation Review plans
4. Review reports on findings from implementation of the above plans
5. Review subsidiary company's annual external audit report
6. Review and make recommendations concerning the annual financial statements and report.

Meetings shall be formally structured, held in appropriate facilities with Agendas, supporting papers and Minutes of prior meetings distributed sufficiently in advance.

Non-independent Directors, Managing Director, external auditors, internal auditor and appointed actuary and other pertinent persons/advisors shall be invited to attend the Committee's meetings from time to time as considered necessary.

The Committee shall meet in private session at least annually to assess management's effectiveness.

The Committee Chairman will meet with management, the internal and external auditors as required to seek points of clarification and information necessary to set Committee meeting Agendas.

<sup>6</sup> PHIAC Governance Standard – subparagraphs 10(8)(d) & (e)

<sup>7</sup> PHIAC Governance Standard - paragraph 10(2)

<sup>8</sup> PHIAC Governance Standard - paragraph 10(8)(b)

<sup>9</sup> PHIAC Governance Standard - subparagraph 10(4)(b)

<sup>10</sup> PHIAC Governance Standard - paragraph 10(7)(c)

<sup>11</sup> PHIAC Governance Standard - paragraph 10(4)(c) – requirement to meet at least once a year

<sup>12</sup> PHIAC Governance Standard - paragraph 10(8)(d)

## 2. Duties & Responsibilities

### 2.1 *Understanding the business*

The Committee shall ensure they understand the company's structure, controls, and types of transactions in order to adequately assess the significant risks faced by the company in the current environment.

### 2.2 *Financial reporting*

The primary responsibility of the Committee is to oversee the company's financial reporting and risk management framework<sup>13</sup> on behalf of the Board and report the results of their activities to the Board after each Committee meeting.<sup>14</sup>

Whilst the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits. The Board of directors is responsible for the company's financial reports including the appropriateness of the accounting policies and principles that are used by the company. The external auditors are responsible for auditing the company's financial reports. The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The Committee will take appropriate actions to set the overall corporate 'tone' for quality financial reporting, sound business risk practices, and ethical behaviour. The following shall be the principal duties and responsibilities of the Committee. These are set forth as a guide with the understanding that the Committee may supplement them as appropriate.

### 2.3 *Assessment of accounting, financial and internal controls*

The Committee shall discuss with management, the internal auditors, actuary and the external auditors, the adequacy and effectiveness of the accounting and financial controls, including the company's policies and procedures to assess, monitor, and manage business risk, and legal and ethical compliance programs (including the Group's Code of Conduct). Any opinion obtained from the internal or external auditors on the company's choice of accounting policies or methods should include an opinion on the appropriateness and not just the acceptability of that choice or method.

The Committee shall meet as required with management, the internal auditors, the external auditors and the actuary to discuss issues and concerns warranting Committee attention, including but not limited to its assessment of the effectiveness of internal controls and the process for improvement. The Committee shall provide sufficient opportunity for the internal auditors, the external auditors and the actuary to meet privately with the members of the Committee and shall ensure that they have unfettered access to raise matters directly with both the Committee and Board.<sup>15</sup> The Committee shall review with the external auditors any audit problems or difficulties and management's response to ensure issues are addressed in an appropriate and timely manner.<sup>16</sup> The Committee shall receive reports from the external auditors on any exceptions to the critical policies and practices of the company and all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management.

<sup>13</sup> PHIAC Governance Standard - paragraph 10(2)

<sup>14</sup> PHIAC Governance Standard - paragraph 10(4)(d)

<sup>15</sup> PHIAC Governance Standard - paragraph 10(8)(b)

<sup>16</sup> PHIAC Governance Standard - subparagraph 10(8)(e)

## **2.4 Appointment of external auditors<sup>17</sup>**

The Committee shall be directly responsible for making recommendations to the Board of directors on the appointment, reappointment or replacement (subject, if applicable, to Member ratification), remuneration, monitoring of the effectiveness, and independence of the external auditors, including resolution of disagreements between management and the auditors regarding financial reporting. All potential non audit engagements must be pre-approved on a case by case basis and should be submitted to the Chief Financial Officer, General Manager Risk & Compliance or Managing Director for approval prior to being commissioned, within normal delegations. Engagements exceeding these delegations will be submitted to the Committee Chairman. The external auditors shall not be engaged to perform any non-audit services that impair or appear to impair the external auditor's judgment or independence in respect of the company. Management shall present the details of approved non-audit engagements to the full Committee at its next scheduled meeting.

## **2.5 Assessment of the external audit<sup>18</sup>**

The Committee, at least on an annual basis, shall obtain and review a report by the external auditors describing (or meet, discuss and document the following with them):

1. The audit firm's internal quality control procedures.
2. 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, in respect of one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.
3. All relationships between the external auditors and the company (to assess the auditor's independence). In addition, this shall be clear hiring policies for employees or former employees of the external auditors in order to prevent the impairment or perceived impairment of the external auditor's judgment or independence in respect of the company.

## **2.6 Independence of the external auditors**

The Committee shall review and assess the independence of the external auditors, including but not limited to any relationships with the company or any other entity that may impair or appear to impair the external auditor's judgment or independence in respect of the company.<sup>19</sup>

## **2.7 Scope of the external audit**

The Committee shall regularly discuss and review with the external auditors the overall scope of the external audit, including identified risk areas and any additional agreed-upon procedures.<sup>20</sup> In addition, the Committee shall also review the external auditor's compensation to ensure that an effective, comprehensive and complete audit can be conducted for the agreed compensation level.

## **2.8 Assessment of the internal audit**

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<sup>17</sup> PHIAC Governance Standard - subparagraphs 10(8)(a) & (c)

<sup>18</sup> PHIAC Governance Standard - paragraph 10(8)(a) & (c)

<sup>19</sup> PHIAC Governance Standard - paragraph 10(8)(c)

<sup>20</sup> PHIAC Governance Standard - paragraph 10(8)(d)

The Committee shall regularly review the internal auditor's mission, charter, independence<sup>21</sup> and resources and discuss the scope of the internal audit with the internal auditor, including the internal audit plan, work program and quality control procedures.<sup>22</sup> The Committee will ensure that the processes are clearly documented.<sup>23</sup>

The Committee must be satisfied that the internal audit function has unfettered access to all business operations of the group.<sup>24</sup>

## **2.9 Assessment of Risk & Compliance Management**

The Committee shall review the Risk & Compliance Management plan to achieve the Strategy, including scope, work programme and resources. This includes ensuring that the Group has written policies to manage risks, and procedures in place to monitor and evaluate compliance with policies.<sup>25</sup>

## **2.10 Communications with stakeholders**

The Committee shall review annual financial information and any statutory returns required by regulators.

The Committee shall review all representation letters signed by management to ensure that the information provided is appropriate. Also, the Committee shall discuss the results of the annual audit and any other matters required to be communicated to the Committee by the external auditors under generally accepted auditing standards. The Committee shall establish procedures for the receipt, retention, and treatment of complaints received by the company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of the company of concerns regarding questionable accounting or auditing matters. The Committee shall receive corporate legal reports of evidence of a material violation of the Corporations Act, National Health Act, Private Health Insurance Act 2007 and other relevant statutes or breaches of fiduciary duty.

## **2.11 Committee Performance**

The Committee shall perform an evaluation of its performance at least annually to determine whether it is functioning effectively by reference to current best practice and this charter.<sup>26</sup>

**Board Approved: 25 March 2010**

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<sup>21</sup> PHIAC Governance Standard - paragraph 11(2)(a)

<sup>22</sup> PHIAC Governance Standard - paragraph 10(8)(d) and 11

<sup>23</sup> PHIAC Governance Standard - paragraph 11(2)(b)

<sup>24</sup> PHIAC Governance Standard - subparagraph 11(2)(c)

<sup>25</sup> PHIAC Governance Standard - paragraph 7(1)(a) and (b)

<sup>26</sup> PHIAC Governance Standard - paragraph 10(7)(d)