

**MANCHESTER UNITY
AUSTRALIA LTD
ACN 087 648 771
(Manchester Unity)**

**AUDIT, RISK & COMPLIANCE
COMMITTEE CHARTER**

(In accordance with APRA Governance Standard
and PHIAC Governance Standard)



Board approval date: 30 April 2009
Board review dates: November 2009, August 2010

1. INTRODUCTION

- 1.1 The Audit, Risk and Compliance Committee (**the Committee**) is established as a committee of the Board of Manchester Unity Australia Ltd (**Manchester Unity**) on the terms set out in this Charter. Manchester Unity is a wholly owned subsidiary of The Hospitals Contribution Fund of Australia Limited and a jointly regulated friendly society under the *Life Insurance Act 1995*.
- 1.2 The Audit, Risk and Compliance Committee has the responsibilities and powers set forth in this Charter.

2. MEMBERSHIP

- 2.1 The Committee shall comprise all the independent non-executive directors of the Company.¹ The criteria used in defining independence are set out in the Manchester Unity Board Charter.
- 2.2 The Committee shall be chaired by an independent director, other than the Board chairman, who has leadership experience and a strong finance, accounting and/or business background.²
- 2.3 The Committee has the functions and responsibilities set out in the *Life Insurance Act 1995* and Prudential Standard LPS510 Governance (**the APRA Governance Standard**) issued by the Australian Prudential Regulation Authority (**APRA**) and the Governance standard issued by the Private Health Insurance Administration Council under the *Private Health Insurance (Insurer Obligations) Rules 2009* (**the PHIAC Governance Standard**).
- 2.4 All Committee members shall be financially literate.
- 2.5 At least one member shall have accounting and/or related financial management expertise.

3. COMMITTEE OBJECTIVES AND RESPONSIBILITIES

- 3.1 The Committee is responsible for formulating and oversight of the Company's financial and statutory reporting, internal control structure, risk management framework and systems, professional accounting requirements, the

¹the APRA Governance Standard– paragraph 32 & PHIAC Governance Standard – paragraph 10(4) – the committee must have at least three members, all members must be non-executive directors and a majority of the members must be independent.

² the APRA Governance Standard– paragraph 33 & 34 & PHIAC Governance Standard – paragraph 10(4) – the chair must be an independent director and can not be the chair of the Board.

appointment of the Company's external auditor, the internal and external audit functions and compliance as detailed below:

3.1.1 Financial Reporting

- Providing an objective non-executive review of the effectiveness of Manchester Unity's financial reporting;³
- Ensuring that Financial Statements prepared by the company are effective for the purposes of the *Life Insurance Act 1995*;
- Enhancing the credibility and objectivity of financial reporting;
- Responsibility for the oversight of APRA statutory reporting requirements and other financial reporting requirements including professional accounting requirements;
- Ensuring that the company at all times has a proper system of management and financial controls;
- Ensuring that the external Auditor is competent, adequately resourced and given sufficient scope to complete the duties imposed by the *Life Insurance Act 1995* and other applicable legislation;
- Ensuring that the company is able to supply such certificates of audit as are required by Prudential Regulators;
- Ensuring that the internal audit function is competent, adequately resourced and given sufficient scope to complete their duties;
- Ensuring that the Appointed Actuary is adequately resourced and given sufficient scope to complete the duties imposed by the *Life Insurance Act 1995* and other applicable legislation; and
- Ensuring that the Financial Conditions Report is effective for the purposes of the *Life Insurance Act 1995*.

3.1.2 Risk Management

- Providing an objective non-executive review of the effectiveness of Manchester Unity's risk management framework⁴;
- Monitoring risk management; and
- Conducting a periodic review of the Business Continuity Plan.

3.1.3 Compliance

- A management Compliance Committee shall be established and have responsibility to monitor and review, on behalf of the Board, the Manchester Unity compliance system.
- Providing an objective non-executive review of the effectiveness of Manchester Unity's compliance framework; and
- Monitoring compliance.

³ the APRA Governance Standard paragraph 30 & PHIAC Governance Standard paragraph 10(2).

⁴ the APRA Governance Standard paragraph 30 & PHIAC Governance Standard paragraph 10(2).

- 3.2 The Committee is responsible for maintaining free and open communication between the Committee, external auditors, the internal auditors, Appointed Actuary and the management of the Company.⁵
- 3.3 The Committee is empowered to investigate any matter 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.⁶
- 3.4 The internal auditor shall have a direct reporting line and unfettered access to the Committee.

4. MEETINGS

- 4.1 The Committee shall meet at least four times each year.
- 4.2 The quorum for Committee meetings is a majority of members of the Committee provided that there are no less than three non-executive independent directors present.
- 4.3 Meetings shall be formally structured, held in appropriate facilities with timely notice, agendas, supporting papers and minutes of prior meetings distributed sufficiently in advance.
- 4.4 The Managing Director of the parent company, the Managing Director of the Company, appropriate senior executives, the external auditor, internal auditor, appointed actuary and other pertinent persons/advisors shall be invited to attend the Committee's meetings and given the opportunity to bring matters to the attention of the Committee.⁷
- 4.5 The Committee shall meet in private session at least once each year to assess management's and the external and internal auditors' and appointed Actuary's effectiveness.
- 4.6 The Committee Chairman will meet with management, the internal and external auditors and Appointed Actuary as required, to seek points of clarification and information necessary to set Committee meeting agendas.
- 4.7 The Committee shall provide sufficient opportunity (on at least two occasions each year) for the external auditor, internal auditor, Appointed Actuary to meet privately with members of the Committee.

⁵ the APRA Governance Standard paragraph 39 & PHIAC Governance Standard paragraph 10 (7)

⁶ APRA Governance Standard – paragraph 31

⁷ APRA Governance Standard – paragraph 42

5. KNOWLEDGE OF THE BUSINESS AND UNFETTERED ACCESS TO PERSONNEL

- 5.1 Committee members shall ensure they understand Manchester Unity's structure, controls, and types of transactions in order to adequately assess the significant risks faced by the company.
- 5.2 Committee members shall have unfettered access at all reasonable times to the senior management, the internal auditor, the external auditor and the appointed actuary of Manchester Unity.⁸

6. FINANCIAL REPORTING RESPONSIBILITIES

6.1 Financial Reporting

- 6.1.1 The responsibility of the Committee is to oversee the Company's financial reporting process on behalf of the Board and report the results of its activities to the Board.
- 6.1.2 The Committee will take appropriate actions to set the overall corporate standard for quality financial reporting, sound business risk practices, and ethical behavior.

6.2. Assessment of accounting, financial and internal controls

- 6.2.1 The Committee shall discuss with management, the internal auditors, appointed actuary and the external auditor, the adequacy and effectiveness of the accounting and financial controls. This discussion shall include Manchester Unity's policies and procedures to assess, monitor, and manage business risk, and legal and ethical compliance programs (including the HCF Group Code of Conduct).
- 6.2.2 Any opinion obtained from the internal or external auditors on Manchester Unity's choice of accounting policies or methods should include an opinion on the appropriateness and not just the acceptability of that choice or method.
- 6.2.3 The Committee shall meet as required with management, the internal auditors, the external auditors and the Appointed Actuary to discuss issues and concerns warranting Committee attention, including but not limited to its assessment of the effectiveness of internal controls and any processes for improvement.
- 6.2.4 The Committee shall provide sufficient opportunity for the internal auditor, the external auditor and the appointed actuary to meet privately with the members of the Committee and shall ensure that

⁸APRA Governance standard – paragraph 39 & PHIAC Governance Standard – paragraph 10(7)

they have unfettered access to raise matters directly with both the committee and the Board.

- 6.2.5 The Committee shall review with the external auditor and internal auditor any audit problems or difficulties and management's response.
- 6.2.6 The Committee shall receive reports from the external auditor and the internal auditor 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.

6.3 Appointment of external auditor

- 6.3.1 The Committee is responsible for annually reviewing and making recommendations to the Board on the appointment, reappointment or replacement remuneration, monitoring of the effectiveness adequacy, expertise and independence of the external auditor, including resolution of disagreements between management and the auditor regarding financial reporting.⁹
- 6.3.2 The Committee shall approve all audit and non-audit services provided by the external auditor and shall not engage the external auditor to perform any non-audit/ assurance services that, in its opinion, may impair or appear to impair the external auditor's judgment or independence in respect of the Company.
- 6.3.3 The Committee may delegate approval authority of all audit and non-audit services by the external auditor to a member of the Committee.
- 6.3.4 The decisions of any Committee member to whom approval authority is delegated must be presented to the full Committee at its next scheduled meeting.

6.4 Independence of the external auditor

- 6.4.1 The Committee shall review, assess and report to the Board annually on the independence of the external auditor, 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 and whether the auditor meets the Audit Independence tests set out in Professional Statement F1 Professional Independence and the auditor independence

⁹ the APRA Governance Standard paragraph 38 & PHIAC Governance Standard paragraph 10 (8)

requirements of the APRA Governance Standard and the *Corporations Act 2001*.¹⁰

6.5 Scope of the external audit

6.5.1 The Committee shall regularly discuss and review with the external auditor the overall scope of the external audit plan, ensuring they cover the financial reporting requirements of Manchester Unity, the identified risk areas and any additional agreed-upon procedures.

6.5.2 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.

6.6 Assessment of the internal audit

6.6.1 The Committee shall review the internal auditor's resources and ensure the adequacy, expertise and independence of the internal audit function.¹¹

6.6.2 The Committee shall review and discuss the scope of the internal audit with the external and internal auditor, including the internal audit plan, work program, quality control procedures and the findings of the audits.

6.6.3 The Committee shall ensure that issues brought to its attention will be managed and rectified in an appropriate and timely manner.

6.7 Communications with employees

6.7.1 The Committee shall establish policies and procedures for the submission by employees on a confidential basis, the treatment of complaints and concerns regarding accounting, internal controls, compliance and auditing matters. This shall include a process for ensuring employees are aware of these policies and procedures.

7 RISK AND COMPLIANCE RESPONSIBILITIES

7.1 Understanding the Business

7.1.1 The Committee shall ensure it understands Manchester Unity's structure, controls, types of transactions and regulatory obligations in order to adequately assess the significant risks faced by Manchester

¹⁰ the APRA Governance Standard paragraph 36 & PHIAC Governance Standard paragraph 10 (8)

¹¹ PHIAC Governance Standard paragraph 10 (8)

Unity and the effectiveness of its compliance culture, programs and processes.

7.2 Appointment of Compliance Officer

7.2.1 The Committee shall approve the position description and key performance indicators of the Compliance Officer, review the criteria for selection of appropriate persons and recommend to the Board the appointment of the candidate it proposes.

7.3 Oversight

7.3.1 The responsibility of the Committee is to ensure that an appropriate framework of policies, procedures, internal controls, reporting, ethical standards and management accountability is established for regulatory compliance and consistently maintained. This responsibility includes allocating appropriate resources to achieve the results targeted. It monitors the compliance activities of management, reviews the periodical reports of the Compliance Officer and investigates unresolved complaints.

7.3.2 The Committee reviews management's performance in observing the approved policies and executing the procedures as directed by the Committee, including nurturing a culture of compliance throughout Manchester Unity and embedding compliance obligations in business processes wherever possible.

7.4 Communications with stakeholders

7.3.1 The Committee shall review management's communications with regulators APRA, ASIC, FOS and relevant statutory returns.

7.3.2 The Committee shall review all representation letters signed by management to ensure that the information provided is appropriate. Also, the Committee shall discuss compliance matters with the Compliance Officer, the Appointed Actuary, the external and internal auditors on the results of the annual audit and any other compliance matters required to be communicated to the Committee by the compliance Officer, external/internal auditors and the Appointed Actuary.

7.3.3 The Committee shall establish procedures for the receipt, retention and treatment of complaints received by Manchester Unity regarding regulatory compliance and the confidential, anonymous submission by employees of Manchester Unity of concerns regarding questionable practices or occurrences. The Committee shall receive

corporate legal reports of evidence of any material violation of the Corporations Act, Life Insurance Act, Privacy Act, Financial Services Reform Act and other relevant statutes or breaches of fiduciary duty.

7.3.4 The Committee shall report on its proceedings including providing a report after each committee meeting¹² and make its recommendations to the Board of Directors

8 COMMITTEE PERFORMANCE

8.1 The Committee shall undertake an evaluation of its performance annually, to determine whether it is functioning effectively by reference to current best practice, and the Standard.

9 REVIEW OF CHARTER

9.1 The Committee shall review and, as appropriate, make recommendations to the Board on changes to this Charter annually.

¹² PHIAC Governance Standard – paragraph 10(4)