

Perpetual Limited

**AUDIT, RISK AND
COMPLIANCE
COMMITTEE**

TERMS OF REFERENCE

Approved May 2019

Perpetual 

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TERMS OF REFERENCE

1. OBJECTIVE

- 1.1 The Audit, Risk and Compliance Committee (**committee**), is a standing committee of the board of directors of Perpetual Limited (**board**). The purpose of the committee is to assist the board to carry out the following functions in respect of Perpetual Limited and its wholly owned subsidiaries (together **Group**) more efficiently and fully:
- (a) oversight of the integrity of the Group's statutory financial reports and statements, reporting systems and the preparation of the Group's financial statements, including external audit;
 - (b) monitoring that management has an appropriate risk management framework in place (for both financial and non-financial risk) to identify and effectively manage risk and that management ensures that the Group operates within the risk appetite set by the board;
 - (c) make recommendations to the board in relation to changes that should be made to the Group's risk management framework or to the risk appetite set by the board;
 - (d) make recommendations to the PARC in relation to the risk management overlay to be considered as part of the Group's performance and reward framework;
 - (e) monitoring that management has an appropriate compliance management framework in place to ensure compliance with regulatory, prudential, legal and ethical standards and monitoring the efficacy of that framework;
 - (f) monitoring the activities of the Group's licensed and regulated subsidiaries and overseeing the integrity of internal audit; and
 - (g) reviewing compliance with internal risk and compliance guidelines, policies and procedures and other prescribed internal standards of behavior; and
 - (h) monitoring trends on the state of risk culture and satisfying itself that the Group's risk management framework deals adequately with emerging risks such as conduct risk, digital disruption, cyber-security, privacy and data breaches, sustainability and climate change.
- 1.2 The committee may, within the scope of its responsibilities:

- (a) perform activities and make recommendations to the board consistent with these terms of reference;
- (b) engage independent counsel and other advisors as it considers necessary to carry out its duties at the Group's expense;
- (c) require the attendance of company officers at meetings as appropriate; and
- (d) have unrestricted access to management, employees, internal and external auditors (with or without management present) and information it considers relevant to its responsibilities under these terms of reference.

1.3 The committee has no management role.

2. MEMBERSHIP

2.1 Committee members are appointed by the board. The committee will consist of:

- (a) a minimum of three members;
- (b) all of whom are non-executive directors; and
- (c) a majority of whom are independent directors.

2.2 The board also appoints the chairman of the committee, who must be an independent director who is not the chairman of the board.

2.3 Each member must be financially literate; at least one member must have accounting or related financial expertise and some members must have an understanding of the financial services industry.

2.4 The chairman of the committee will ensure that there is an appropriate induction process for completion by each new member.

2.5 The secretary of the committee will be the company secretary, or such other person as nominated by the board.

2.6 The skills and performance of all committee members will be reviewed annually by the board.

3. MEETINGS

3.1 The committee meets formally at least four times a year and the schedule of meetings will be agreed in advance.

3.2 Two of the meetings will be set at a date to enable the draft half-yearly and yearly financial reports and statements to be reviewed prior to presentation to the board and will be attended by the external auditors. All directors are encouraged to attend these meetings.

- 3.3 One of the meetings will be held in combination with the People and Remuneration Committee in order to enable the remuneration report and corporate responsibility statement to be reviewed prior to presentation to the board. This may be attended by external auditors; the CFO will attend, and all board members are encouraged to attend.
- 3.4 Special meetings may be convened as required or requested by a director.
- 3.5 The number of times the committee met and the individual attendance by members at committee meetings must be disclosed in the annual report.
- 3.6 A quorum is two independent non-executive director members of the committee.
- 3.7 The CEO, chief financial officer, chief risk officer, head of internal audit and general manager legal and compliance will be invited to attend all meetings, unless otherwise determined by the committee. The external auditors will be invited to attend each meeting and during each meeting will meet with the committee in the absence of management. Other senior executives will be invited by the committee to attend as required.
- 3.8 The chief financial officer, chief risk officer, general manager, legal and compliance, and head of internal audit have the right to meet on a confidential basis with the chairman of the committee or the committee as a whole.
- 3.9 The agenda and supporting papers should be delivered to the committee members by the company secretary at least five days in advance of each meeting.
- 3.10 Draft minutes of each committee meeting are to be approved by the committee chairman and circulated to all committee members by the company secretary within a reasonable timeframe following the committee meeting.
- 3.11 Once the minutes have been approved by the committee chairman, a copy will be included in the papers for the next board meeting. The committee chairman will also provide a report to the board of material matters at the next board meeting.
- 3.12 Minutes should accurately record the resolutions of the committee, key reasons for those decisions (where appropriate) and actions arising.
- 3.13 The action list from each committee meeting will be approved by the committee chairman and circulated to all committee members with the minutes of the meeting.
- 3.14 The action list will include accountabilities and the nature and timing of subsequent reporting.
- 3.15 Reports and other papers of the committee shall be made available to all directors upon request, provided no conflict of interest exists.

- 3.16 Other members of the board are invited to committee meetings under a standing invitation.

4. RESPONSIBILITIES

4.1 Financial Reporting

- (a) Review half-yearly and yearly financial reports and statements with management and with the external auditors as necessary prior to their approval by the board.
- (b) Review any recommendations from the chief financial officer on accounting policy changes.
- (c) Make recommendations to the board on significant accounting and financial policy issues, and review the appropriateness of the accounting judgments or choices exercised by management in preparing the half-yearly and yearly financial reports and statements.
- (d) Review the reports from the chief financial officer in respect of any qualified audit reports in respect of funds, trusts or portfolios for which any group company is responsible.
- (e) Review processes for financial reporting to the board, including those of budgetary control, for completeness and accuracy of information provided to the board.
- (f) Review the processes for external reporting for completeness and accuracy of information.
- (g) Review and monitor the processes employed by the Group to verify the integrity of any periodic financial corporate reporting that the Group releases to the market which is not audited or reviewed by an external auditor.

4.2 Risk Management

- (a) Review the implementation maintenance, and adequacy of a risk management framework and internal control system throughout the Group to manage material financial and non-financial business risks that:
 - (i) supports the wider goals, objectives and strategies of the Group and its businesses;
 - (ii) ensures that all significant risks are identified, evaluated, treated, monitored and communicated at a group, divisional and business/support unit level; and
 - (iii) is consistent in principle with internationally accepted standards.
- (b) Review the appropriateness, effectiveness and adequacy of the risk management framework at least annually, and risk appetite statement at least annually.
- (c) Regularly monitor key and emerging risks and receiving reports from management on new and emerging sources of risk and the risk controls

and mitigation measures that management has put in place to deal with those risks;

- (d) Monitoring movements in the risk profile, ensuring adequate action is taken to address adverse findings.
- (e) Review any material incident involving misconduct, fraud or other material breakdown of the Group's internal controls including the "lessons learned", and review and approve the procedures in relation to confidential submissions by employees of concerns regarding the same.
- (f) Review information and trends that allow a view to be formed on the state and appropriateness of risk culture and ensure existing supporting frameworks remain appropriately robust.
- (g) Review the adequacy and effectiveness of the Group's identification and management of economic, environmental and social sustainability risks and its disclosure of any material exposures to those risks.
- (h) Review the risk disclosures in the operating and financial review in the annual directors' report.

4.3 **Taxation**

- (a) Review Perpetual Group tax policies and practices including any material decisions relating to tax.
- (b) Review the Perpetual Group's tax risk management framework and progress in implementing that framework including the effectiveness of tax risk management policies.

4.4 **Group Compliance**

- (a) Review the implementation maintenance, and adequacy of a compliance framework and internal control system throughout the Group to manage the Group's compliance with statutory and prudential obligation in the jurisdictions in which it operates.
- (b) Review the appropriateness, effectiveness and adequacy of the compliance management framework at least annually
- (c) Review reports from the general manager, legal compliance and company secretariat in relation to compliance with any conditions of regulatory licences and other approvals held by group companies.
- (d) Monitor the Group's compliance with statutory and prudential obligations and review policies and programs developed in respect of significant compliance issues including the issue of regulated disclosure documents, the Group's Anti-money Laundering Program and its privacy obligations.
- (e) Review and monitor the Group's conflicts management framework and conflicts of interest register and the propriety of all material related party transactions.

- (f) Recommend to the board for approval Group policies for authorising claims for expenses for board members and the CEO.

4.5 **Review of Reports and Approval of Plans**

- (a) Review at least annually recommendations from the chief financial officer and the external auditors on the key financial and accounting principles to be adopted by the Group in the preparation of its statutory financial reports and statements.
- (b) Review a quarterly activity report from the chief risk officer dealing with:
 - (i) the operation of the Group's risk management framework;
 - (ii) significant risk exposures and risk events including any major failures in the operation of key internal control systems;
 - (iii) the outcome of quality assurance reviews and the implementation of management responses and actions in relation to quality assurance reports;
 - (iv) the annual plans of the chief risk officer in respect of the Group's risk management framework and the progress of implementation of these plans.
- (c) Review a quarterly activity report from the general manager, legal compliance and company secretariat dealing with engagement with regulators, breach reporting and the management of litigation.
- (d) Review reports on key operational risk issues prepared by executives from time to time.
- (e) Review half yearly reports in respect of entities in which the Group has a non-controlling interest and has the right to appoint at least one director (**associate entities**) from one of the company's nominated directors. The report should address financial and operational risk issues which the relevant director believes should be brought to the attention of the committee having regard to the committee's responsibilities.

4.6 **Interface with the external auditor**

- (a) Approve the annual plans of the external auditor for the Group and regularly monitor the progress of implementation of these plans.
- (b) Liaise with the external auditor as necessary.
- (c) Review with the external auditor any significant recommendations made by them on the subject of internal controls, and management's response to the recommendations.
- (d) Monitor the progress made by management for the improvement in internal controls arising from recommendations made by the external auditor.
- (e) Make recommendations on the annual engagement of the external auditor, including reviewing the scope of the audit.

- (f) Review the rotation of the audit engagement partner, the independence and performance of the external auditor, and external audit fees.
- (g) Review at least annually the independence of the external auditor and, as part of the annual reporting process, provide advice to the board as to whether the Committee is satisfied that the provision of any non-audit services by the external auditor is compatible with the general standard of independence, and an explanation of why those non-audit services do not compromise audit independence.
- (h) Annually review the performance of the external auditor.
- (i) Scrutinise any resignation of the external auditor.

4.7 **Internal audit**

- (a) Monitor that management has in place a process for conducting internal audit and that it is functioning objectively, effectively and resourced adequately.
- (b) Annually review and approve the charter of the Internal Audit function.
- (c) Review and approve the proposed internal audit plan for the coming year and ensure that it addresses key areas of risk and that there is appropriate co-ordination with the external auditor.
- (d) Regularly monitor the progress of work performed in relation to the audit plan.
- (e) Receive and review reports from internal audits on its reviews of the adequacy of the Group's processes for managing risk.
- (f) Ensure that significant findings and recommendations made by the internal auditors and management's proposed response are received, discussed and acted on.
- (g) Assess whether the internal audit function is adequate and independent of management and the external auditor and whether there is an appropriate level of access to management and rights to seek information.
- (h) Committee members will meet privately, on at least an annual basis, with the internal auditor (who will also have access to the Committee as required).
- (i) Scrutinise the appointment or any resignation of the Head of Internal Audit.

4.8 **Resourcing**

Monitor the level of resources related to the management of risk and compliance across the group.

4.9 Perpetual's Insurance Program

- (a) Review the Group's insurance program annually having regard to the nature of the Group's business and the insurable risks associated with that business.
- (b) Recommend to the board changes to the Group's insurance program resulting from the annual review.

5. GENERAL

- 5.1 The committee will carry out any other responsibilities and functions that may be delegated by the board.

6. REPORTING RESPONSIBILITIES

- 6.1 The committee will through its chairman, regularly update the board about matters relevant to the committee's role and responsibilities and make appropriate recommendations for approval by the board.

7. EVALUATING PERFORMANCE

- 7.1 In order to ensure that the committee is fulfilling its duties to the board, the committee will periodically:
 - (a) obtain feedback from the board on the committee's performance and implement any agreed actions; and
 - (b) provide any information the board may request to facilitate its review of the committee's performance.

8. REVIEW OF TERMS OF REFERENCE

- 8.1 The committee will review the committee's terms of reference periodically, discuss any required changes with the board and ensure any revisions to the terms of reference are approved by the board.

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