

# **Audit & Risk Committee Charter**

## **A.1 Objectives**

The Audit & Risk Committee (“the Committee”) is a sub-committee of the Board of Directors and as such assists the Directors to discharge the Board’s responsibilities of oversight and governance in relation to financial, risk, audit and compliance matters. In this role the Committee has no executive responsibility, but is responsible for performing its duties in accordance with this charter and making recommendations to the Board of Directors on the adequacy of external audit, internal audit, risk management and compliance procedures. The objectives of the Committee reflect this important role and include the following:

- assisting the Board of Directors to discharge its responsibilities to exercise due care, diligence and skill in relation to the Bank’s:
  - reporting of financial information to users of the financial reports;
  - application of accounting policies;
  - internal control system;
  - monitoring of business risk; and
  - establishment and management of compliance procedures over regulatory and legal requirements.
- providing a formal forum for communication between the Board and senior financial management;
- improving the efficiency of the Board by delegating tasks to the Committee where such tasks should be discussed in sufficient depth;
- improving the effectiveness of the internal and external audit functions and the communication between the Board and the external and internal auditors;
- facilitating the independence of the external auditor; and
- providing a structured reporting line for Internal Audit and facilitating the maintenance of the objectivity of the internal auditor.

## **A.2 Duties and responsibilities**

The Committee is required to discharge the following duties and responsibilities:

### **A.2.1 External reporting**

To review and report to the Board on:

- the annual and half-year financial reports and make recommendations to the Board for the adoption of these reports;
- the Internal Audit reports and make appropriate inquiries of the Head of Audit;
- the appropriateness of the Bank’s material accounting policies and principles;
- the adequacy of the Committee charter on an annual basis;
- the reasonableness of significant estimates and judgements in the financial reports by making inquiries of management and the external auditor;

- compliance with the APRA Prudential Guidelines;
- the progress of, and the final report from the annual APRA Targeted Review;
- the appropriateness of the accounting principles and policies used and the clarity of the Bank's financial disclosures in conjunction with the external auditor; and
- the responses to complaints regarding accounting and auditing matters.

### **A.2.2 Internal control and risk management**

To review and report to the Board on:

- internal processes for determining and managing key risk areas, particularly:
  - important judgements and accounting estimates;
  - business risk in the areas of credit (this includes the operational aspects of credit, ie. that there is a credit strategy, that the credit policies that flow from this strategy are appropriate and credit processes are in place and operating effectively), market risk and operational risk, specifically including risks relating to outsourcing; and
  - consideration of environmental, community and social risks.
- adequacy of the Bank's risk management systems and the adequacy of the Bank's control environment with management, and the internal and external auditors;
- the Bank's risk profile, the action plans in place to manage risks, and progress against plan to achieve these actions; and
- processes the Bank has in place for assessing and continuously improving internal controls, particularly those related to areas of significant risk.

### **A.2.3 Internal Audit**

To review and report to the Board (as necessary) on:

- appointment of the IT Internal Auditor;
- Internal Audit's mission, charter, qualifications and resources;
- the Internal Audit department reporting line and independence (e.g. directly to the Managing Director and/or the Audit & Risk Committee);
- the scope of the internal audit plan and work program;
- the progress of the internal audit program and the implications of internal audit findings on the control environment;
- management's responsiveness to Internal Audit's findings and recommendations; and
- the process the Bank has in place for monitoring and assessing the effectiveness of the Internal Audit department.

### **A.2.4 External Audit**

To report to the Board on:

- recommendations on the appointment of the external auditor and monitoring of the effectiveness and independence of the external auditor;
- the external auditor's fee and whether an effective, comprehensive and complete audit can be conducted for the set fee;
- recommendations on the term of the engagement with the external auditor;
- the scope of the external audit (particularly the identified risk areas) and any additional agreed-upon procedures on a regular and timely basis;
- the external audit plan, discuss audit results and consider the implications of the external audit findings for the control environment;
- all representation letters signed by management and ensure that the information provided is consistent with the Committee's knowledge;
- inquiries of the auditor if there have been any significant disagreements with management irrespective of whether or not they have been resolved; and
- the monitoring and critiquing of management's responsiveness to the external auditor's findings and recommendations.

#### **A.2.5 Compliance activities**

To review and report to the Board on:

- the adequacy and effectiveness of the program of compliance established within the Bank;
- the processes in place for ensuring new and changed legal and regulatory requirements are identified and reflected in Bank processes;
- the scope and depth of compliance audit activities and the resulting impact audit findings have on the risk profile of the Bank; and
- the nature and effectiveness of action plans implemented to address identified compliance weaknesses.

#### **A.3 Complaints procedures**

The Audit & Risk Committee will respond to complaints regarding accounting, auditing and matters relating to risk, including complaints from those who wish to remain anonymous. The complaints procedure will operate as follows:

- the complaints will be brought to the attention of the Audit & Risk Committee by the Head of Audit;
- the complaints will be discussed at the direction of the Committee and the Head of Audit will conduct an investigation and report back to the Committee on the outcome of the investigation;
- the scope of the investigation will be set by the Audit & Risk Committee;
- where appropriate the Audit & Risk Committee may request the external auditor to assist in the investigation;
- the Head of Audit will respond to the complaint (where applicable) at the direction of the Committee; and

- the Head of Audit will maintain a register of complaints and report to each Audit & Risk Committee meeting the details of any complaints received and the status of any outstanding complaints.

#### **A.4 Meetings**

The Committee will meet at least four times per annum. Two of the meetings must be prior to Board meetings at which the half-year and annual financial reports are adopted.

The Chairman of the Committee or the Chairman of the Board may call a meeting of the Audit & Risk Committee at any time, or if so requested by any member of the Committee.

A quorum will consist of two members.

The members of the Committee should meet with the external auditors without management personnel being present at least twice per annum. Where appropriate, the Committee may meet with the internal auditors without other management personnel present. Such meetings with both the external and the internal auditors should address, amongst other things, whether each auditor has received co-operation from management and whether there have been any impediments to carrying out their respective audits.

The Chairman of the Committee should meet regularly and separately with the Head of Audit and with the external audit partner.

#### **A.5 Authority**

The Committee may, if so required, hold private meetings with the Head of Audit. The Committee requires that if the Head of Audit identifies a problem and is not supported by management, he or she has a responsibility to report this to the Committee.

#### **A.6 Committee membership**

The Committee should comprise a minimum of three non-executive members of the Board of Directors with a majority of members being independent directors. For the purpose of this Committee the definition of independence shall be as detailed in Section A10.

At least one member should have accounting (or related) financial management expertise.

Members should be given the opportunity to attend technical or professional development courses to assist them in keeping up to date with legislative, accounting or other relevant issues. Members should be given the opportunity to attend risk management training associated with the Bank's risk management programs.

New members should be provided with a copy of the Committee's Charter and other specific information about the Bank.

The Committee (including the Chairman of the Committee) will be appointed by the Board of Directors, following consideration of recommendations from the Remuneration & Nomination Committee. The Managing Director is an ex-officio member of the Committee.

The Managing Director, Group Executive & Chief Financial Officer, Group Executive Group Risk, Financial Controller, Company Secretary, Group Executive & Chief Operations Officer, Head of Audit, IT internal auditors and the external auditors will be invited to attend meetings as required.

#### **A.7 Chairman**

The Chairman of the Committee will be a non-executive Director of the Bank and be appointed by the Board. The Chairman of the Board of Directors should not be the Chairman of the Committee.

The Chairman of the Committee should report formally to the Board to provide a summary of the Committee's work and results. This should include the Committee's meetings, any formal recommendations of the Committee and other major issues of which the Audit & Risk Committee believes the Board should be informed. The Committee Chairman should sign the minutes of the Committee meetings.

#### **Secretary**

The Bank's Company Secretary shall be appointed Secretary to the Committee. The Secretary, in conjunction with the Chairman, shall draw up an agenda, which shall be circulated to each member of the Committee, the Managing Director and others requested to attend the meeting, at least two working days prior to each meeting.

The Secretary should prepare the minutes of the Committee meetings.

#### **A.8 External Auditor rotation**

The external auditor is required to rotate lead partner and review partner so that neither role is performed by the same accountant for more than five years. This policy is sourced from the BOQ Auditor Independence Policy approved by the Board on 22 November 2002.

#### **A.9 BOQ Auditor Independence Policy**

The Audit & Risk Committee reviews the services of the external auditor in accordance with the BOQ Auditor Independence Policy approved by the Board on 22 November 2002.

#### **A.10 Definition of Independence**

The Audit & Risk Committee has adopted the definition of Independence approved by the Board on 11 December 2003.