

# Audit and Risk Management Committee Charter Folkestone Limited

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Folkestone Limited and its wholly owned subsidiaries

Adopted by the Board of Folkestone Limited on 27 February 2017



## AUDIT & RISK MANAGEMENT COMMITTEE CHARTER

### CONTENTS

1. BACKGROUND AND OVERVIEW .....	3
2. MEMBERSHIP AND COMPETENCIES .....	3
3. MEETINGS .....	4
4. AUTHORITY .....	5
5. DUTIES AND RESPONSIBILITIES .....	5
6. REVIEW.....	8

### ANNEXURES

ANNEXURE 1 – Independence as defined by the ASX Corporate Governance Council in their Principles of Good Corporate Governance and Best Practice Recommendations .....	9
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## AUDIT AND RISK MANAGEMENT COMMITTEE CHARTER

### 1. BACKGROUND AND OVERVIEW

- 1.1 The Audit and Risk Management Committee Charter ("the Charter") governs the operations of the Audit and Risk Management Committee ("ARMC"). It sets out the ARMC's role and responsibilities, composition, structure and membership requirements. The ARMC has been established as a subcommittee of the Board of Folkestone Limited ('Board") to assist the Board in fulfilling its corporate governances and oversight responsibilities in relation to Folkestone Limited's and its wholly owned subsidiaries' ("FLK") financial reports and financial reporting process, internal control structure, risk management systems (financial and non-financial), compliance plan and the internal and external audit process.
- 1.2 The ARMC shall review and reassess the Charter at least annually and, on each occasion, shall obtain the approval of the Board to the form of the Charter.
- 1.3 The ARMC roles and responsibilities also extend to the operations of Folkestone Funds Management Limited ("FFML"), Folkestone Investment Management Limited ("FIML"), Folkestone Real Estate Management Limited ("FREML") and Folkestone Maxim Asset Management Limited ("Maxim") who are each a wholly owned subsidiary of FLK which each hold an AFS license ("FLK AFSL Holders"). The ARMC is responsible for the measurement and monitoring of the compliance with the requirements of the FLK AFSL Holders. The ARMC also monitors the internal and external audit processes for each of the schemes and managed funds managed by FFML.
- 1.4 It is noted that a separate Audit and Compliance Committee ("ACC") is established to monitor the internal and external audit processes for each of the schemes and managed funds managed by FIML and FREML. In addition to these duties, the ACC is also responsible for the ongoing measurement and monitoring of the compliance with the obligations for FIML and FREML's AFSL's with the exception of the review of the annual financial statements and associated compliance with AFSL conditions which is performed by this committee.

### 2. MEMBERSHIP AND COMPETENCIES

- 2.1 The ARMC shall be appointed by the Board. It shall be of sufficient size, independence and technical expertise to discharge its mandate effectively. The ARMC shall consist of:
  - a) at least three members; and

- b) an independent<sup>1</sup> chairperson, who shall be nominated by the Board from time to time but who shall not be the chairperson of the Board.

2.2 The term of appointment shall be 3 years and members may resign upon reasonable notice in writing to the ARMC Chairperson. A member may from time to time be immediately removed by notice in writing under the hand of the ARMC Chairperson. The effect of ceasing to be a director of the Board is also a basis for the automatic termination of appointment as a member of the ARMC.

2.3 The secretary of the ARMC shall be nominated by the Board.

### 3. MEETINGS

3.1 The ARMC shall meet often enough to undertake its role effectively. They will also meet at any other time that it, or the Board consider necessary.

3.2 The responsibility of the ARMC includes:

- a) reviewing the financial reports for FLK and the integrity and process associated with their preparation;
- b) monitoring compliance with internal management and financial control systems;
- c) reviewing the scope of activities, performance and remuneration of the external auditors;
- d) ensuring that any deficiencies identified are subject to prompt remedial action by management;
- e) monitoring compliance with the Corporations Act, ASX Listing Rules and related reporting requirements;
- f) identifying the risks inherent in the Company's business activities and establishing policies and procedures to monitor these risks.
- g) reviewing the effectiveness of FLK's compliance function in general.

3.3 In respect of the FLK's funds management activities undertaken by the FLK AFSL Holders in addition to those items listed above, the ARMC is responsible for;

- a) monitoring compliance with the requirements of the FLK AFSL Holders; and
- b) reviewing and approving financial reports for any funds managed by FFML for recommendation to the RE/Trustee. The ARMC shall meet in private session at least annually to assess management's effectiveness. Private sessions will not involve any executives officers

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<sup>1</sup> Independent, as defined by the ASX Corporate Governance Council. See schedule to this Charter

- 3.4 A quorum for any meeting will be 2 members.
- 3.5 Special meetings may be convened as required. The Chairperson will call a meeting of the ARMC if requested to do so by:
- a) any member of the ARMC;
  - b) by the external auditors
  - c) by the chairperson of the Board
- 3.6 The ARMC may invite such other persons (eg. Managing Director, FLK senior management, external parties) to its meetings, as it deems necessary.
- 3.7 The proceedings of all meetings will be minuted and these will be included in the papers for the next Board meeting after each ARMC meeting.
- 3.8 The members of the ARMC shall disclose any actual or perceived conflict in relation to the information that they review or the decisions that they make at the start of the meeting and details of the conflict will be recorded in the minutes of the meeting.

#### **4. AUTHORITY**

- 4.1 The Board authorises the ARMC, within the scope of its responsibilities, to:
- a) investigate any matter brought to its attention with full access to all books, records and facilities;
  - b) seek any information it requires from an employee (and all employees are directed to co-operate with any request made by the ARMC) or external parties;
  - c) obtain outside accounting, legal, compliance, risk management or other professional advice as it determines necessary to carry out its duties; and
  - d) ensure the attendance of FLK senior management and officers at meetings as it thinks appropriate.

#### **5. DUTIES AND RESPONSIBILITIES**

##### **5.1 Financial Reporting**

One of the ARMC's key responsibilities is to oversee FLK's financial reporting, including the financial reporting process for any funds managed by FFML, on behalf of the Board and to report the results of its activities to the Board. The ARMC shall:

- a) review FLK's and FFML Funds' financial statements to determine whether they are accurate and complete and make any necessary recommendations to the Board;

## AUDIT & RISK MANAGEMENT COMMITTEE CHARTER

- b) review significant accounting policies adopted by FLK or any fund managed by FFML to ensure compliance with AIFRS and generally accepted accounting principles; and
- c) review other financial information distributed externally as required.

### 5.2 Reporting to the Board

- a) The ARMC shall regularly report to the Board on all matters relevant to their roles and responsibilities. The ARMC shall also report to
  - i. the Board of FFML on matters specific to FFML's AFSL requirements and any fund managed by FFML;
  - ii. The Board of Maxim on matters specific to Maxim's AFSL requirements;
  - iii. The Board of FIML on matters specific to FIML's AFSL requirements; and
  - iv. The Board of FREML on matters specific to FREML's AFSL requirements.
- b) The chairperson will report and make recommendations to the relevant Board as appropriate after each meeting on matters dealt with by the ARMC.
- c) The ARMC shall ensure that the relevant Board is made aware of audit, financial reporting, internal control, risk management and compliance matters which may significantly impact upon FLK, or the FLK AFSL Holders in a timely manner.

### 5.3 Assessment of accounting, financial and internal controls

- a) Periodically, the ARMC shall meet separately with management and the external auditors to discuss:
  - i. the adequacy and effectiveness of the accounting and financial controls, including FLK's policies and procedures to assess, monitor, and manage FLK's and the FLK AFSL Holders Enterprise Risk management process and legal and ethical compliance programs; and
  - ii. issues and concerns warranting ARMC attention, including but not limited to their assessment of the effectiveness of internal controls and the process for improvement.
- a) The ARMC may appoint an internal auditor to undertake an independent assessment of accounting, financial and internal controls of FLK, which includes the FLK AFSL Holders, and/or the funds managed by FFML where it believes it is necessary to assess the adequacy and effectiveness of accounting, financial and internal controls.
- b) The ARMC shall receive regular reports from the external auditor on the critical policies and practices for FLK, which includes the FLK AFSL Holders, and the funds managed by FFML, and all alternative treatments of financial information

## AUDIT & RISK MANAGEMENT COMMITTEE CHARTER

within generally accepted accounting principles that have been discussed with management.

### 5.4 Appointment of external auditors and scope of external audit

- a) The ARMC shall make recommendations to the Board on the appointment, reappointment or replacement, remuneration, monitoring of the effectiveness and independence of the external auditors and resolution of disagreements between management and the auditor regarding financial reporting.
- b) The ARMC shall discuss with the external auditors the overall scope of the external audit, including identified risk areas and any additional agreed-upon procedures and make recommendations to the Board to approve such matters.

### 5.5 Assessment of the external audit

- a) The ARMC, 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):
  - i. The audit firm's internal quality control procedures;
  - ii. Any material issues raised by the most recent internal quality control review, or peer review, of the audit firm, and by any enquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and
  - iii. All relationships between the external auditor and FLK, FLK AFSL Holders and the funds managed by FFML (to assess the auditor's independence).
- b) The ARMC shall review and assess the independence of the external auditor, including but not limited to any relationships with FLK, FLK AFSL Holders, the funds managed by FFML or any other entity that may impair or appear to impair the external auditor's judgement or independence in respect of the FLK, the FLK AFSL Holders or the funds managed by FFML.

### 5.6 Assessment of the internal audit

Should the ARMC determine that an internal audit review is required, they shall discuss the scope of the internal audit with the internal auditor, including the internal audit plan, work program and quality control procedures and make recommendations to the Board to approve such matters.

### 5.7 Compliance with Laws and Regulations

- a) The ARMC shall gain an understanding of the current areas of greatest compliance risk (financial and non-financial) and assess whether the risk is within the risk tolerance of FLK, the FLK AFSL Holders or the funds managed

by FFML on a regular basis. If not, the ARMC shall make recommendations for the development of controls and subsequent reporting on these controls for further review and assessment.

- b) The ARMC shall obtain regular updates from management, FLK's legal counsel, auditors and any external parties as it thinks fit regarding audit, risk management and compliance matters (including the monitoring of compliance with the conditions of any Australian Financial Services Licence). It shall regularly review existing compliance systems and consider any deficiencies in compliance risk measures.
- a) The ARMC shall review any legal matters which could significantly impact FLK's or the FLK AFSL Holders compliance and risk management systems, and any significant compliance and reporting issues, including any recent internal regulatory compliance reviews and reports.
- b) The ARMC shall review the effectiveness of the compliance function at least annually, including the system for monitoring compliance with laws and regulations and the results of management's investigations and follow-ups (including disciplinary action) of any fraudulent acts or non-compliance.
- c) The ARMC shall review the findings of any examinations by regulatory agencies and oversee all liaison activities with regulators.

#### 5.8 Complaints and Breaches

- a) The ARMC will review the effectiveness of the Complaints and Breaches Policy.
- b) All complaints and breaches will be reported to the ARMC. The Committee will consider how each have been dealt with and if appropriate recommend alternative actions to the Board.
- c) The ARMC will ensure, where necessary, any breach of any FLK AFSL Holders AFSL is reported to ASIC within the required time frames.

## 6. REVIEW

6.1 6.1 A review of this Policy will be undertaken annually by the Compliance Officer

6.2 6.2 FLK may change this policy from time to time.



**INDEPENDENCE AS DEFINED BY THE ASX CORPORATE GOVERNANCE COUNCIL IN THEIR PRINCIPLES OF GOOD CORPORATE GOVERNANCE AND BEST PRACTICE RECOMMENDATIONS**

Independence in essence means independent of management and free of any business or other relationship that could, or could reasonably be perceived to, materially interfere with the exercise of unfettered and independent judgment.

The corporate governance guidelines provide certain criteria for assessing the independence of directors. They provide that an independent director is a non-executive director and:

- a) is not a substantial shareholder of the company or an officer of, or otherwise associated directly with a substantial shareholder of the company;
- b) within the last three years has not been employed in an executive capacity by the company or another group member, or been a director after ceasing to hold any such employment;
- c) within the last three years has not been a principal of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided;
- d) is not a material supplier or customer of the company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- e) has no material contractual relationship with the company or another group member other than as a director of the company;
- f) has not served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interest of the company;
- g) is 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 interest of the company.