



AUDIT COMMITTEE CHARTER

Version 8 – Board Approved 13 June 2006

Next Review Due: July 2008

Approved

Dr Helen Nugent

CHAIRMAN

1. INTRODUCTION

The Audit Committee (“Committee”) is a subcommittee of the Funds SA Board, established as required by section 27(2) of the Superannuation Funds Management Corporation of South Australia Act 1995 (“the Act”).

Section 27(2), (3) and (4) of the Act states:

- (2) The Corporation must establish an Audit Committee.
- (3) The Audit Committee will comprise –
 - (a) the Board of Directors, or such members of the Board as the Board may from time to time determine; and
 - (b) such other person or persons as the Board may from time to time appoint.
- (4) The functions of the Audit Committee include –
 - (a) the reviewing of financial statements prior to their approval by the Board, to ensure that the statements provide a true and fair view of the Corporation and the public sector superannuation funds; and
 - (b) assisting the external auditors on all matters concerning the conduct and outcome of annual audits of the Corporation and the funds; and
 - (c) regularly reviewing the adequacy of the accounting, internal auditing, reporting and other financial management systems and practices of the Corporation.

This Charter establishes the terms of reference within which the Committee will discharge its functions, as prescribed by the Act.

2. COMPOSITION OF THE AUDIT COMMITTEE

Section 27(3) of the Act stipulates that the Committee will comprise:

- (a) the Board of Directors, or such members of the Board as the Board may from time to time determine; and
- (b) such other person or persons as the Board may from time to time appoint.

The Board has determined that the Committee shall comprise four Board members.

The desired qualifications of members of the Committee shall match the needs of the Committee and its role within Funds SA. Qualities and factors which shall be considered when selecting Committee members include: inquisitiveness, tough mindedness, independence, availability, industry knowledge, administrative and commercial experience and prior Audit Committee experience, if available. Further, at least one member of the Committee should have financial/accounting experience and knowledge and preferably be a Certified Practicing Accountant or a Chartered Accountant.

The Board shall appoint and remove members of the Committee. When a member of the Audit Committee ceases to be a director of Funds SA, their Audit Committee membership also ceases. When a director is reappointed to the Funds SA Board by the Governor, their membership of the Audit Committee must be confirmed by the Board.

The aim of the Board is to maintain Committee continuity, whilst providing fresh perspective via the selection process.

The Committee may invite management, external audit, internal audit and other people to attend meetings as it deems appropriate.

3. OBJECTIVES

The main objectives of the Committee are to assist the Board in fulfilling its responsibility for:

- exercising oversight of the compliance with financial statements and reporting requirements of the Act, the Public Finance and Audit Act 1987 and other mandatory professional reporting requirements;
- monitoring the processes established and the level of compliance with legislation and regulations, standards, policies and practices;
- reviewing the scope and results of internal audit review, compliance reviews and external audits; and
- assessing the adequacy of Funds SA's risk management and internal control framework and practices to monitor compliance with policies approved by the Board.

4. POWERS OF THE AUDIT COMMITTEE

The Committee may request any information it deems necessary to fulfil its objectives. The Committee shall have unlimited access to Funds SA management, staff, the internal and external auditors.

The Audit Committee should meet with the external or internal auditors without management personnel present as it sees fit.

The Committee may obtain independent professional advice, where such advice is necessary to discharge its duties.

The Board has determined that with respect to these functions the Committee is a subcommittee of the Board and the overall duty and responsibility rests with the Board.

5. MEETINGS

The Committee shall hold at least four meetings per year. Special meetings may be convened as required.

With adequate prior notice any of the following people may request a Committee meeting:

- a member of the Committee or Board;
- the Chief Executive Officer;
- the internal auditor; or
- the external auditors.

Agenda and papers should be circulated in sufficient time to allow members to review the information well before a meeting of the Committee.

Any director will be welcome to attend any Committee meeting. Directors may request papers from any meeting. Directors will be notified of forthcoming meeting dates through the distribution of Committee minutes in Board papers.

The external auditors shall be invited to attend meetings.

The Committee is empowered to make decisions via circulated resolution and can conduct meetings by telephone or video conference should the need arise.

A quorum shall consist of two members.

A motion of the Committee shall be passed by a simple majority of members present. In the event of an equal number for and against the recommendations of a paper, the matter will be referred to the Board for resolution.

6. REPORTING

The minutes of meetings shall be prepared and circulated to management and the Chairman for review as soon as practicable after the meeting has been held and submitted to the next meeting of the Committee for approval and signing by the Chairman of the Audit Committee.

Draft copies of the Committee minutes shall be published in the Board Committees and Subsidiary Corporation Reports section of the next Board meeting papers.

The Audit Committee Chairman is required to report back to the Board on Audit Committee meeting outcomes at the next scheduled meeting of the Board including when draft minutes have not been finalised.

The Committee shall prepare an annual report to the Board summarising the work performed during the year in line with its objectives, duties and responsibilities.

A summary of the Committee's activities shall be published in the corporate governance section of the Funds SA Annual Report.

7. DUTIES AND RESPONSIBILITIES

The Board recognises the functions stated in the Act to be the foundations of the role to be performed by the Audit Committee. In addition, it has expanded upon these functions in the Duties and Responsibilities of the Audit Committee to assist directors further in discharging their responsibilities of oversight and control in line with current best practice.

The duties and responsibilities of the Audit Committee have been determined by the Board in line with specific sections of the Act having regard to best practice in this area.

7.1 *Assess the Quality of Financial Reporting*

Section 27(4)(a) of the Act states that a function of the Audit Committee includes:

“the reviewing of financial statements prior to their approval by the Board, to ensure that the statements provide a true and fair view of the Corporation and the public sector superannuation funds”.

The duties and responsibilities of the Audit Committee relating to assessing the quality of financial reporting, are as follows:

- To understand and evaluate the appropriateness of the Corporation's accounting policies through active and frequent communication with the Corporation, the internal and external auditors, and ensuring they are in accordance with accounting practices of entities involved in similar activities and operations.
- To ascertain whether the accounting policies and methods adopted by management are generally consistent with Australian Accounting Standards, Urgent Issues Group (UIG) Consensus Views, relevant Treasurer's Instructions and Accounting Policy Statements issued pursuant to the Public Finance and Audit Act, 1987.
- To understand and evaluate Funds SA's ability to identify, assess and determine the risk of material financial statement errors and non-compliance with laws and regulations.
- To oversee the accounting treatment of material judgmental areas pertaining to investment valuations, and other material judgmental issues as they arise.
- To review and approve all significant accounting policy, valuations and reporting changes.

- To review and assess any significant disagreements between management and either the internal or external auditors and to understand the nature of any material audit adjustments.
- To review and assess the nature and substance of significant accruals, reserves and other estimates within the financial statements.
- To review the annual financial statements with management and the external auditors, prior to the approval by the Board and to ensure that the statements are in accordance with generally accepted accounting principles and policies approved by the Board.
- To review and assess the adequacy of management reporting to the Board in terms of the quality, quantity and timing of information necessary to understand and report internally and externally on Funds SA's risks, operations and financial condition.

7.2 *Maintain an Effective and Efficient Audit*

Section 27(4)(b) of the Act states that a function of the Audit Committee includes:

“assisting the external auditors on all matters concerning the conduct and outcome of annual audits of the Corporation and the funds”.

The duties and responsibilities of the Audit Committee relating to the maintenance of an effective and efficient audit are as follows:

- To communicate the Audit Committee's role and expectations to external audit.
- To monitor and assess the external auditors' performance versus expectations.
- To review the objectivity and independence of the external auditors
- To ensure that management restrictions are not being placed upon the external auditors.
- To assess periodically coordination between the internal and external auditors.
- To support and understand the role of the external auditor.
- To maintain a direct line of communication with external audit.

- To review and understand the audit plan of the external auditors including discussion of the key audit issues and risk areas.
- To obtain an understanding of external audit quality control processes.
- To assist external audit on all matters concerning the conduct and outcome of annual audits of Funds SA and the funds.
- To review external audit performance against the communicated expectations and ascertain management comment regarding the conduct of the external audit.
- To review all material communication between Funds SA and the external auditors and ensure that the information is complete and appropriate.
- To enquire of the external auditors if there have been any significant disagreements with management irrespective of whether or not such disagreements have been resolved.
- To monitor and critique management's responsiveness to the external auditor's findings and recommendations.
- To review the external auditors' fees and comment upon the fees in relation to the standard of audit services provided.

7.3 *Assess the Effectiveness of Internal Controls*

Section 27(4)(c) of the Act states that a function of the Audit Committee includes:

“regularly reviewing the adequacy of the accounting, internal auditing, reporting and other financial management systems and practices of the Corporation.”

The duties and responsibilities of the Audit Committee with respect to assessing the effectiveness of internal controls are to review and assess the following:

7.3.1 Risk Management

- The internal processes for determining and managing key risk areas, particularly:
 - non-compliance with legislation and regulations;
 - non-compliance with corporate governance and other policies;
 - business and operational matters;
 - accounting and financial estimates; and
 - litigation, claims and judgements.

- The risk management systems of Funds SA to ensure that they are adequate.

7.3.2 Internal Control

- The effectiveness of Funds SA's internal control structure through active and frequent communication with management and the internal and external auditors in respect of the accounting, internal auditing, reporting and other financial management systems and practices of Funds SA.

- The appropriateness of procedures for ensuring that new systems are developed with adequate controls, and to assess the effectiveness of controls over the new systems which are developed.

- The appropriateness of procedures for ensuring that Funds SA assesses and continuously improves internal controls, particularly those that relate to areas of significant risk.

- The appropriateness of and compliance with delegations of authority and guidelines for general operations.

- The extent to which internal and external auditors' work can be relied upon to detect control weaknesses.

- Significant control deficiencies reported by the internal and external auditors and to ensure that management's response and actions to correct any noted deficiencies are appropriate and adequately implemented on a timely basis.

- The effectiveness of controls in relation to unusual transactions or potential transactions that may carry more than a normal degree of risk.

- The efficiency and security of management information systems.

- The prevention and detection of fraud and irregularities.

- The propriety of related party transactions.

7.3.3 Internal Audit

- The Audit Committee's communication of its role and expectations to internal audit.
- The internal auditor's mission, charter, qualifications and resources.
- The scope and thrust of the internal audit plan.
- Whether management restrictions are being placed upon the internal auditor.
- Whether there have been any significant disagreements between management and the internal auditor irrespective of whether or not such disagreements have been resolved.
- Management's responsiveness to internal audit's findings and recommendations.
- The manner and effectiveness with which the Audit Committee questions yet supports Funds SA's internal auditor.
- Progress with respect to the implementation of the internal audit plan and the implications of the internal audit findings for the control environment.
- The processes Funds SA has in place for monitoring and assessing the effectiveness of the internal auditor.

7.4 Appointment and Duties of the Audit Committee Chairman

The Chairman of the Committee will be formally appointed by the Board from time to time. The Chairman of the Board shall not be appointed as Chairman of the Committee.

The Chairman will:

- Chair Audit Committee meetings;
- Oversee the provision of adequate information to enable members to make properly informed and effective decisions;
- Ensure that the Audit Committee meets at least four times per year;
- Review minutes of meetings to ensure that decisions are accurately recorded, and where appropriate record the views of members and management;
- Following approval of the Committee, sign the previous Committee meeting minutes;
- Provide an oral report of the Committee activities at the next Board meeting following a Committee meeting;
- Meet with the internal auditor at least quarterly to review risk management and audit matters material to the interests of the Audit Committee; and
- Review the performance of Committee members in conjunction with the Chairman of the Board.

8. EMPLOYMENT OF EXTERNAL AUDITOR

There will be a period of two years following resignation from the Auditor-General's Department, before a director of audits or audit manager of the audit team who was directly involved in the Funds SA audit, can be employed in a senior role by the Corporation.

9. POLICY REVIEW

The Audit Committee Charter shall be reviewed at least biennially. All amendments to the charter must be approved by the Board.