

**National Reconstruction
Fund Corporation**

**Audit and Risk
Committee Charter
August 2024**

The National Reconstruction Fund Corporation is a corporate Commonwealth entity established by the Australian Government under the *National Reconstruction Fund Corporation Act 2023* (Cth).

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1. Purpose and authority

1.1 Purpose

The purpose of this Charter is to set out the role, responsibilities, membership and operation of the Audit and Risk Committee (**Committee**).

1.2 Authority

The Committee is a committee of the Board of the National Reconstruction Fund Corporation (**NRFC**) established in accordance with section 48 of the *National Reconstruction Fund Corporation Act 2023* (Cth) (**NRFC Act**)¹ and is authorised by the Board to assist it in fulfilling its statutory and regulatory responsibilities. It has the authority and power to exercise the responsibilities set out in this Charter and under any separate resolutions of the Board granted to it from time to time.

1.3 Subsidiaries

The NRFC may from time to time and in accordance with the *Public Governance, Performance and Accountability Act 2013* (Cth) (**PGPA Act**) and the NRFC Act, incorporate one or more subsidiaries to assist it in performing its investment functions under the NRFC Act. For the purposes of this Charter, a reference to NRFC includes a reference to each of its wholly owned subsidiaries unless the context requires otherwise.

2. Role of the Committee

The role of the Committee² is to assist the Board to discharge its responsibilities under the NRFC Act, the PGPA Act, and the *Public Governance, Performance and Accountability Rule 2014* (Cth) (**PGPA Rules**) in respect of financial reporting, performance reporting, external and internal audits, risk oversight and management, internal control and compliance with relevant laws.

3. Audit and Risk responsibilities

3.1 Authority

As set out in this Charter, the Committee may approve for endorsement by the Board:

- a. external and internal auditor appointment and terms of engagement and any replacement or dismissal where appropriate; and
- b. the internal audit plan and work program and the external audit plan based on the Committee's review and assessment of them.

When used in this Charter, the term 'approving' means approving for endorsement by the Board.

3.2 External reporting

The Committee is responsible for:

¹ Also see section 45, PGPA Act.

² See section 17(2), PGPA Rule.

- a. making a recommendation to the Board to approve and sign financial reports based on the Committee's review and assessment of them;
- b. reviewing financial reports presented by management and reviewing the results of external audits of these reports including to assess whether the reports and the annual report as required under Division 6 of the PGPA Act are prepared in accordance with the PGPA Rules;
- c. reviewing management's processes for ensuring and monitoring compliance with laws, regulations, recommendations in Parliamentary committee reports and other requirements relating to the preparation of accounts and external reporting by the NRFC of financial information;
- d. reviewing, in conjunction with the legal advisors of the NRFC, the approach to address any legal matters that could have a significant impact on the financial reports or financial statements of the NRFC;
- e. assessing the appropriateness of significant estimates and judgments in financial reports by examining the processes used to derive material estimates and judgments and seeking verification of those estimates from management and internal and external auditors;
- f. assessing the appropriateness of the accounting principles adopted by management in the composition and presentation of financial reports (including input from the External Auditor about the appropriateness of the accounting principles used) and the clarity of financial disclosure practices used by the NRFC;
- g. assessing the impacts of any proposed change in accounting practices and policies;
- h. assessing all representation letters signed by management and ensuring all information provided is appropriate; and
- i. overseeing the management of requests made by the NRFC to the Commonwealth under section 54 (*Corporation's request for a payment to itself*) of the NRFC Act.

3.3 External Audit

The Committee is responsible for:

- a. approving the terms of engagement of the External Auditor³ and being satisfied that an effective, comprehensive and complete audit can be conducted for the External Auditor's fee;
- b. approving the audit plan of the External Auditor and the scope and adequacy of audit approach (including identified risk areas and any additional procedures) with the External Auditor on a periodic basis and in light of changes in the circumstances of the NRFC or in regulatory requirements;
- c. reviewing the External Auditor's reports and assessing the findings, recommendations and management's responses;

³ This will be the ANAO.

- d. monitoring the effectiveness and independence of the External Auditor;
- e. discussing with the External Auditor matters relating to the conduct of the audit including:
 - i. the appropriateness of the accounting principles and financial disclosure practices used by management;
 - ii. any difficulties encountered in conducting the audit process, including restrictions on audit scope or access to information; and
 - iii. any specific points of divergence with the management of the NRFC;
- f. discussing any other matter that the External Auditor or Committee believe should be discussed privately and without management present if the Committee requires; and
- g. acting as a forum for communication between the Board, management and External Auditors.

3.4 Internal Audit

The Committee is responsible for:

- a. approving the engagement or appointment of an Internal Auditor and the appropriate delivery model for internal audit activities, taking in to account the size of the NRFC, the stage of its development, the complexity of transactions it may enter into, the sophistication of its internal control environment and the cost/benefit of an internal audit function;
- b. approving the terms of engagement and replacement or dismissal of the Internal Auditor (if relevant);
- c. approving the internal audit plan and work program based on the Committee's review and assessment of them;
- d. reviewing reports of results of internal audit engagement and activities including the scope of internal audits and the Internal Auditor's role, responsibilities and resources and any significant internal audit findings;
- e. monitoring the performance, effectiveness and objectivity of the internal audit function;
- f. ensuring that recommendations made by the Internal Auditor are discussed and (where appropriate) acted upon in a timely manner;
- g. ensuring that the Internal Auditor reports directly to the Chair of the Committee and administratively to the Chief Financial Officer (**CFO**) or other relevant member of the management team;
- h. overseeing the coordination of the Internal Auditor with the External Auditor;
- i. discussing any other matter that the Internal Auditor or Committee believe should be discussed privately and without management present if the Committee requires; and
- j. acting as a forum for communication between the Board, management and the Internal Auditor.

3.5 Internal control, risk management and policies

The Committee is responsible for:

- a. making recommendations to the Board for approval of the:
 - i. NRFC's risk profile, risk management strategy and Risk Management Framework (including the risk appetite statement); and
 - ii. risk management policies and other specified policies within the Committee's area of responsibility,
based on the Committee's review and assessment of them;
- b. making recommendations to the Board regarding NRFC's emerging and material risks including financial and non-financial risks and mitigation of such risks;
- c. making recommendations to the Board for approval of any changes necessary to the Board delegations;
- d. periodic reporting to the Board on material and actual incidents within the risk areas described in this section;
- e. reviewing and ensuring the effectiveness of the NRFC's fraud and corruption control arrangements having satisfied itself that the NRFC has appropriate systems, procedures and practices in place to detect, capture and effectively respond to any actual, suspected or alleged fraud and corruption affecting the NRFC;
- f. reviewing and ensuring the adequacy and effectiveness of the NRFC's internal processes and practices for managing other key risk areas, including but not limited to:
 - i. complaints, litigation and claims;
 - ii. Environmental, social, and governance (ESG);
 - iii. ICT, information security infrastructure and cybersecurity;
 - iv. business continuity;
 - v. other relevant business risks not dealt with by other Board committees;
- g. reviewing and ensuring the adequacy and effectiveness of insurance coverage having regard to the NRFC's business, risk appetite and risk profile;
- h. ensuring that those individuals responsible for managing risk and compliance within the NRFC have direct access to Committee members;
- i. assessing reports from management in relation to:
 - i. any significant complaints related to matters overseen by the Committee;
 - ii. any significant or systemic allegations of fraud or corruption (including where relevant the status of any ongoing investigations and any consequential changes to identified fraud or corruption risk in the NRFC);

- j. conducting investigations of breaches or potential breaches of internal controls and incidents within the risk areas above; and
- k. monitoring compliance with NRFC's policies within the Committee's area of responsibility.

3.6 Compliance and Ethics

The Committee is responsible for:

- a. providing oversight of and reviewing the NRFC's risk culture and behaviours and the impact of the NRFC's culture on compliance processes;
- b. reviewing and monitoring the propriety of any related party transactions;
- c. reviewing the effectiveness of the NRFC's systems, procedures and practices that relate to compliance with laws, regulations, internal policies and accounting standards and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance; and
- d. obtaining regular updates from management about compliance and ethical matters that may have a material impact on the NRFC's financial statements, strategy, operations or reputation, including material breaches of laws, regulations, standards and corporate policies.

3.7 Performance reporting

The Committee is responsible for reviewing and making recommendations to the Board for approval of the NRFC's systems and procedures for assessing and reporting the achievement of the NRFC's performance in addition to any other activities approved by the Board from time to time. In particular, the Committee will satisfy itself that:

- a. the NRFC's Portfolio Budget Statements and Corporate Plan include details of how the NRFC's performance will be measured and assessed;
- b. the NRFC's approach to measuring its performance throughout the financial year against the performance measures included in its Portfolio Budget Statements and Corporate Plan is sound, and has taken into account guidance issued by the Department of Finance;
- c. the NRFC has sound processes in place for the preparation of performance statements and the inclusion of the Statement in its annual report;
- d. the NRFC's proposed performance statement is not inconsistent with the NRFC's financial information, including its financial statements, that it proposes to include in its annual report; and
- e. the NRFC has sound processes in place for the preparation of quarterly investment reports as required by section 82 of the NRFC Act.

3.8 Liaising with Board Committees

The Committee will liaise with the Remuneration, People and Culture Committee in relation to:

- a. the NRFC remuneration related reporting in the financial statements contained in the annual report and any other financial reports required under the PGPA Act, the NRFC Act or any applicable financial services laws; and
- b. the Code of Conduct as it relates to embedding a culture that promotes the proper (that is, efficient, effective, economical and ethical) use and management of public resources.

The Committee will liaise with the Investment Committee on relevant matters as deemed appropriate by the Committee.

4. Code of Conduct and Policies

4.1 Code of Conduct and Policies

Committee members will abide by the Board approved Code of Conduct and all other relevant Board approved policies.

4.2 Conflicts of interest

The NRFC Conflicts of Interest (**COI**) Policy provides detail regarding the procedures for Committee members to manage COI disclosures. Specifically, the PGPA Rules require a Committee member to give other Committee members notice of any material personal interest in a matter that relates to the affairs of the NRFC⁴.

A Committee member who has a material personal interest in a matter that is being considered at a committee meeting must, in accordance with the PGPA Act, not be present while that matter is being considered at the meeting or vote on the matter unless the non-interested members approve the interested director to vote and be present. Further information can be found in the PGPA Rule.

5. Committee membership

5.1 Composition of the Committee

The Committee will consist of at least three members and as otherwise specified by the PGPA Rules⁵.

The Committee may be constituted partially or wholly from Board members (excluding the Chair of the Board), or wholly by persons who are not Board members⁶.

The members of the Committee must be persons who are not employees of the NRFC, except to the extent permitted by the PGPA Rules⁷.

Membership is reviewed periodically and re-appointment to the Committee is not automatic. Appointments and resignations are decided by the Board.

⁴ See section 14, PGPA Rule.

⁵ See section 17(3), PGPA Rule.

⁶ See section 48, NRFC Act.

⁷ See section 17(3) to (5), PGPA Rule.

5.2 Chair

The Chair of the Committee is appointed by the Board and must preside at all meetings at which they are present. If the Chair of the Committee is not present at a committee meeting, the other members present must appoint one of themselves to preside.

5.3 Committee Secretary

The Committee will be supported by the Company Secretary. The Company Secretary will act as the Committee Secretary.

The Committee Secretary may delegate any of the responsibilities of the Committee Secretary set out in this Charter to the Corporate Secretariat team.

5.4 Technical expertise

The Committee must be structured so that members have the appropriate qualifications, knowledge, skills and experience to assist the Committee to perform its functions, including:

- a. all members are financially literate, that is, are able to read and understand financial statements; and
- b. at least one member has financial expertise, that is, is an accountant or financial professional with experience of financial and accounting matters.

6. Committee meetings and process

6.1 Convening meetings

The Committee will meet as frequently as necessary for the efficient performance of its functions. Meetings are to be held at times and places that the Committee determines.

The Chair is vested with the authority to convene meetings of the Committee. The Chair must convene at least four meetings each calendar year but otherwise at such times and frequency as required to undertake its role effectively.

The Chair must convene a meeting within 30 days of receiving a written request to do so from any member of the Committee, the Chair of the Board, the external auditor, the internal auditor or those individuals responsible for the management of risk and compliance within the NRFC.

The Chair must preside at all meetings at which the Chair is present. If the Chair is not present at a meeting, the other Committee members present must appoint one of themselves to preside.

6.2 Quorum

Two members constitute a quorum for meetings of the Committee provided there are no more than four members of the Committee.

The majority of the Committee constitute a quorum for meetings of the Committee if there are more than four members of the Committee.

However, if due to an actual, potential and/or perceived conflict of interest and/or duties:

- a. a Committee member is not present during deliberations, or is unable to take part in any decision of the Committee with respect to a particular matter; and
- b. when that member leaves the meeting concerned there is no longer a quorum present, the remaining members of the meeting constitute a quorum for the purpose of any deliberation or decision at that meeting with respect to that matter.

6.3 Decision-making

A question arising at a meeting is to be determined by a majority of the votes of the Committee members present and voting, noting a preference for unanimous approval and the requirements for a quorum in clause 6.2 above.

The Chair or other person presiding at a meeting has a deliberative vote and in the event of an equality of votes a casting vote.

6.4 Attendance

A standing invitation will be issued to the Internal and External Auditors and the individuals responsible for the management of risk and compliance within the NRFC to attend all or part of any meeting of the Committee, subject to exclusion from all or any part of the meeting as deemed appropriate by the Chair of the Committee from time to time.

The Chair may also invite members of the management team, external advisors or any other person to attend all or part of any meeting of the Committee, subject to exclusion from all or any part of the meeting as deemed appropriate by the Chair from time to time.

Any Board member who is not a member of the Committee will have a standing invitation, but not an obligation, to attend meetings of the Committee.

Committee members (and invitees) may participate in meetings by telephone, video-conference or any other means of communication. A Committee member who participates in such a way is taken to be present at the meeting and to form part of any quorum for the meeting.

6.5 Agenda and documents

The Chair will determine the meeting agenda after consultation with the Chief Executive Officer, the CFO, the Committee Secretary and such other person as the Chair considers appropriate.

The Committee Secretary will distribute the agenda and any related documents to all Committee members and other attendees before each proposed meeting.

6.6 Access to information and personnel

The Chair will receive copies of all reports between the External Auditor and management, and the Internal Auditor and management.

The Committee has the authority to:

- a. seek information it requires from management, an NRFC employee or consultant and request that such a person attend meetings to provide any information or advice that the Committee requires;
- b. access NRFC documents and records;
- c. access and audit all materials relating to the NRFC Special Account;
- d. access and audit all materials relating to the NRFC's exercise of its investments functions and powers under the NRFC Act;
- e. initiate special investigations if deemed necessary; and
- f. access management, internal and external auditors and those individuals responsible for the management of risk and compliance within the NRFC.

6.7 Minutes

The Committee Secretary shall keep minutes of its meetings.

The minutes will be tabled for acceptance at the next Board Audit and Risk Committee meeting. The Chair, or delegate, will table the Committee's meeting minutes at the next available NRFC Board Meeting, making recommendations to the Board for decision as appropriate.

6.8 Circular resolutions

The Committee may consider and make a decision on any matter without a meeting if all of the Committee members entitled to vote on the proposed decision are provided with the proposed resolution and a simple majority of those committee members entitled to vote (**Majority**) sign a document containing a statement that they are in favour of the resolution set out in the document. The document may be signed in counterparts (including by electronic means) and the resolution is passed when the last committee member entitled to vote that constitutes a Majority signs the document.

If a decision is made in accordance with the above procedure, the Committee is taken to have made a decision at a meeting.

The Committee must notify all committee members following a resolution being passed and keep a record of all decisions made without a meeting.

7. Committee performance evaluation

The Board will review the performance of the Committee from time to time as it deems appropriate, but in any event no less than annually.

The result of the evaluation should identify, if relevant, any duties that the Committee has failed to perform and the remedial action that it has taken or proposes to take.

8. Review

The Committee will periodically review this Charter, but in any event no less than once annually, to assess whether it remains relevant to the current needs of the NRFC and report to the Board whether changes are required. The Charter may be amended by resolution of the Board.