



Audit and Risk Committee Charter

Magellan Flagship Fund Limited

ACN 121 977 884

Audit and Risk Committee Charter

1. Introduction

- 1.1 Magellan Flagship Fund Limited ("**Company**") is an ASX-listed investment company.
- 1.2 The Company's investment activities are managed by Magellan Asset Management Limited ("**Manager**") pursuant to an investment management agreement dated 10 November 2006.
- 1.3 The Company has also outsourced key aspects of its corporate administration to the Manager pursuant to an administrative services outsourcing agreement dated 10 November 2006.
- 1.4 The Audit and Risk Committee ("**Committee**") is a committee of the board of directors of the Company ("**Board**").
- 1.5 The Board has established the Committee under the Company's constitution.
- 1.6 This Charter sets out the scope of the Committee's responsibilities in relation to the Company.
- 1.7 The role of the Committee is not an executive role.

2. Objective

- 2.1 The objective of the Committee is to assist the Board to discharge its responsibilities in relation to:
 - (a) effective management of financial and operational risks;
 - (b) compliance with laws and regulations;
 - (c) accurate management and financial reporting;
 - (d) maintenance of an effective and efficient audit; and
 - (e) high standards of business ethics and corporate governance.
- 2.2 The Committee will endeavour to:
 - (a) maintain and improve the quality, credibility and objectivity of the financial accountability process;
 - (b) promote a culture of compliance;
 - (c) ensure effective communication between the Board, the Manager and the Manager's senior financial and compliance management;
 - (d) ensure effective audit functions and communications between the Board and the auditors (as and when they are appointed);
 - (e) ensure compliance strategies and compliance functions are effective; and
 - (f) ensure that directors are provided with financial and non-financial information that is of high quality and relevant to the judgments to be made by them.
- 2.3 The Committee does not have responsibility for assisting the Board in overseeing the effectiveness of the management of the Company's market and credit risks. These matters are dealt with directly at Board level.

2.4 In fulfilling its responsibilities, the Committee receives regular reports from the Manager and the Manager's Chief Financial Officer and Chief Investment Officer and will periodically meet with the external auditors.

3. **Internal control and risk management**

The Committee will, except in relation to credit and market risks:

- (a) assess whether the Manager is setting an appropriate 'control culture';
- (b) oversee the establishment and implementation of risk management and internal compliance and control systems and ensure there is a mechanism for assessing the efficiency and effectiveness of those systems;
- (c) assess the overall effectiveness of the internal control and operational risk management frameworks and consider whether recommendations made by the external auditors have been implemented by the Manager;
- (d) approve and recommend to the Board for adoption policies and procedures on risk oversight and management to establish an effective and efficient system for:
 - (i) identifying, assessing, monitoring and managing risk; and
 - (ii) disclosing any material change to the risk profile;
- (e) regularly review and update the risk profile;
- (f) endeavour to ensure the risk management system takes into account all material risks, including risks arising from:
 - (i) implementing strategies (strategic risk);
 - (ii) operations or external events (operational risk);
 - (iii) legal and regulatory compliance (legal risk);
 - (iv) changes in community expectation of corporate behaviour (reputation risk);
 - (v) being unable to fund operations or convert assets into cash (liquidity risk);
- (g) review compliance reports and the adequacy of the Manager's response to identified breaches;
- (h) assess whether the resources devoted to the Manager's accounting function are adequate to ensure that reporting arrangements are of high quality - and to advise the Board of any identified shortcomings;
- (i) consider the completeness and quality of financial and operational information being provided to the Board, and suggest ways in which those reports might be improved;
- (j) periodically seek advice from the external auditors regarding the completeness and quality of financial and operational information being provided to the Board; and
- (k) where appropriate and/or requested by the Board, undertake reviews of investments, with the aim of assessing the adequacy of the analysis undertaken before decisions were made to proceed with those investments, so that the Company can learn from

those experiences and improve relevant analytical capabilities and reporting processes.

4. **Financial Reporting**

The Committee is responsible for:

- (a) reviewing any half-yearly and annual financial report and all other financial information with the Manager, advisers and the external auditors (as appropriate) before it is released to the market;
- (b) reviewing and recommending to the Board proposed material changes in accounting policies;
- (c) assessing the appropriateness and application of the Company's accounting policies and principles and any changes to them, so that they accord with the applicable financial reporting framework;
- (d) obtaining an independent judgment from the external auditor about:
 - (i) the acceptability and appropriateness of accounting policies and principles put forward by the Manager; and
 - (ii) the clarity of current or proposed financial disclosure practices as put forward by the Manager; and
- (e) assessing any significant estimates or judgments in the financial reports (including those in any consolidated financial statements) by:
 - (i) asking management how they were made; and
 - (ii) asking the external auditors how they concluded that those estimates were reasonable;
- (f) receiving from the Manager confirmation that the integrity of financial reports is founded on a sound system of risk management and internal compliance and control;
- (g) endeavouring to ensure that significant adjustments, adjusted differences, disagreements with management and critical accounting policies and practice are discussed with the external auditors;
- (h) endeavouring to ensure that the Board is aware of matters which may significantly impact the financial condition of the Company's business;
- (i) assessing information from the external auditors that may affect the quality of financial reports (for example, actual and potential material audit adjustments, financial report disclosures, non-compliance with laws and regulations, and internal control issues);
- (j) monitoring the continuous disclosure process adopted by the Board and recommending to the Board any necessary changes; and
- (k) reviewing compliance with all related party disclosures requirements (where applicable) established by accounting standards and the *Corporations Act 2001 (Cth)*.

5. **External audit**

The Committee is responsible for:

- (a) reviewing and recommending to the Board for acceptance the terms of engagement (including fees) of the external auditor;
- (b) regularly reviewing with the external auditor:
 - (i) the scope of the external audit;
 - (ii) identified risk areas; and
 - (iii) any other agreed procedures;
- (c) reviewing and recommending to the Board for adoption policies and procedures for appointing or removing an external auditor, including criteria for:
 - (i) technical and professional competency;
 - (ii) adequacy of resources; and
 - (iii) experience, integrity, objectivity and independence;
- (d) recommending to the Board for approval the appointment or removal of an external auditor;
- (e) regularly reviewing the effectiveness and independence of the external auditor taking into account:
 - (i) the length of appointment;
 - (ii) where appropriate, the last dates lead engagement partners were rotated;
 - (iii) an analysis and disclosure of fees paid to external auditors, including the materiality of fees paid for non-audit services and the nature of those services; and
 - (iv) any relationships with the Company or any other body or organisation that may impair or appear to impair the external auditor's independence;
- (f) recommending to the Board for approval the types of non-audit services that the external auditor may provide without impairing or appearing to impair the external auditor's independence, together with a process for the engagement of the external auditor to provide any such services;
- (g) meeting periodically with the external auditors (at least annually) and inviting them to attend Committee meetings to:
 - (i) review their plans for carrying out internal control reviews;
 - (ii) identify if there have been any significant disagreements with the Manager, whether or not they have been resolved;
 - (iii) consider any comments made in the external auditor's management letter, particularly, any comments about material weaknesses in internal controls and the Manager's response to those matters; and
 - (iv) make recommendations to the Board;
- (h) where appropriate, ensuring that the external audit engagement partners are rotated in accordance with relevant statutory requirements, and otherwise after a maximum of five years' service;

- (i) monitoring and reporting to the Board on the Manager's response to the external auditor's findings and recommendations;
- (j) reviewing all representation letters signed by the Manager; and
- (k) receiving and reviewing the reports of the external auditor.

6. **Internal audit**

Where an internal audit function is considered appropriate, the Committee will review and approve the appointment of an internal audit service provider.

The Committee is responsible for:

- (a) the engagement and dismissal of any chief internal audit executive;
- (b) ensuring any chief internal audit executive is independent of the external auditor;
- (c) ensuring the external auditor does not provide internal audit services;
- (d) overseeing the scope of the internal audit, including reviewing the internal audit team's mission, charter, qualifications and resources;
- (e) reviewing and approving the scope of the internal audit plan and work programme;
- (f) monitoring the progress of the internal audit work programme and considering the implications of the internal audit findings for the control environment;
- (g) monitoring and reporting to the Board on the Manager's responsiveness to internal audit findings and recommendations;
- (h) evaluating the requirement for an internal audit function and, if required, the process for monitoring and assessing the effectiveness of the internal audit function;
- (i) overseeing the liaison between the internal audit team and the external auditor;
- (j) receiving and reviewing the internal audit team's reports; and
- (k) ensuring the internal audit team reports directly to the Committee.

7. **Other responsibilities**

The Committee is responsible for:

- (a) overseeing the implementation of the Company's Code of Conduct and assessing compliance with it;
- (b) overseeing the development and implementation of ethical guidelines and corporate governance policies;
- (c) assessing and recommending to the Board for adoption the scope, cover and cost of insurance, including insurance relating to directors and officers liability; and
- (d) reporting to the Board on any industry development affecting the control environment.

8. **Committee composition**

8.1 The Committee must comprise:

- (a) at least three directors;
 - (b) all non-executive directors; and
 - (c) a majority of independent directors.
- 8.2 The Board will appoint the chairperson. The chairperson must be an independent director and may not be the chairperson of the Board.
- 8.3 The secretary of the Company will be the secretary of the Committee.
- 8.4 The Committee must be of sufficient size, independence and technical expertise to effectively discharge its mandate.
- 8.5 Each member of the Committee should be able to read and understand financial statements and at least one member must be a qualified accountant or other financial professional with experience of financial and accounting matters.
- 8.6 Each member of the Committee should have an appropriate understanding of the funds management industry.
- 8.7 A member may act by their alternate.
9. **Performance Appraisal**
- 9.1 The Committee will conduct an appraisal of the performance of its members, adherence to its Charter and achievement of its objectives on an annual basis.
10. **Committee meetings**
- 10.1 The Committee will meet a minimum of four times each year.
- 10.2 A quorum for a Committee meeting is two Committee members.
- 10.3 Committee meetings may be held by any technological means allowing its members to participate in discussions even if all of them are not physically present in the same place. A member who is not physically present but participating by technological means is taken to be present.
- 10.4 The Committee may pass or approve a resolution without holding a meeting in accordance with the procedures (so far as they are appropriate) in section 248A of the *Corporations Act 2001 (Cth)*.
- 10.5 The Committee may invite other persons it regards appropriate to attend Committee meetings. The Manager's Chief Financial Officer and Chief Operating Officer will be invited to join meetings of the Committee, and may be invited by the chairperson to speak at meetings of the Committee, but will not be entitled to vote on matters put to the Committee, and shall leave a meeting if requested to do so by the chairperson.
- 10.6 The secretary will circulate the agenda and papers a reasonable period in advance of each meeting.
11. **Minutes of Committee meetings**
- 11.1 The Committee must keep minutes of its meetings.
- 11.2 Draft minutes of each Committee meeting must be included in the papers for the next full Board meeting after each meeting of the Committee.

11.3 Minutes must be distributed to all Committee members, after the Committee chairperson has approved them.

11.4 Minutes, agenda and supporting papers are available to directors upon request to the Committee secretary, except if there is a conflict of interest.

12. **Reporting to the Board**

The Committee chairperson must report the Committee's findings to the Board after each Committee meeting.

13. **Access to information and independent advice**

13.1 The Committee may seek any information it considers necessary to fulfil its responsibilities.

13.2 The Committee has access to:

- (a) the Manager to seek explanations and information from the Manager; and
- (b) the external auditors to seek explanations and information from them, without the Manager being present.

13.3 The Committee may seek professional advice from the Manager and from appropriate external advisers, at the Company's cost. The Committee may meet with these external advisers without the Manager being present.

14. **Material personal interests**

14.1 If a member of the Committee or person attending a meeting of the Committee has a material personal interest in a matter before the Committee, the member or person must not be present at the meeting during the Committee's discussion of the matter (except as provided for in the Corporations Act).

15. **Review and changes to this charter**

15.1 The Committee will review this Charter annually or as often as it considers necessary.

15.2 The Board may change this Charter from time to time by resolution.

16. **Approved and adopted**

This Charter was approved by the Board on 9 June 2010 for adoption by the Committee.