Australian Government
Department of Finance

A guide for corporate Commonwealth entities on the role of audit committees

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Audience

This guide is relevant to corporate Commonwealth entities (CCEs).

It may also assist audit committees in understanding their role and responsibilities.

Introduction

Audit committees are integral to good corporate governance. They provide advice to accountable authorities, assist them to meet their duties and obligations, and support the development of key practice and capacity within CCEs.

The contribution made by the audit committee is in large part in the hands of accountable authorities, as they appoint the committee members and approve the committee's charter that establishes the functions and direction of the committee. [1]

With the introduction of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), the Parliament signalled a shift in its expectations for accountable authorities in governing CCEs, including a focus on non-financial performance reporting. Audit committees of Commonwealth entities have had a traditional role in supporting the entity and its directors to comply with their legislative obligations. Reflecting the guiding principle of the PGPA Act that the performance of the public sector is more that financial, the role of audit committees was expanded under the PGPA Act framework to include performance reporting.

Since the introduction of the PGPA Act, improving the non-financial performance reporting of Commonwealth entities remains a key area of focus for Parliament. The Joint Committee of Public Accounts and Audit (JCPAA) has made a number of recommendations to raise the profile and quality of performance reporting within entities including mandatory annual audits of performance statements by the Auditor-General.[2]

In 2017, the Independent Review into the operation of the *Public Governance Performance and Accountability Act 2013 and Rule* (the Independent Review) was conducted in accordance with section 112 of the PGPA Act. The final report was tabled in 2018. The Government has accepted in principle all recommendations directed at the Government, several of which are directed at enhancing the effectiveness of audit committees.

This includes disclosing the audit committee charter and information on individual members in entities' annual reports, and increasing the independence of audit committees.

This guide aims to complement the current practices CCE's have in place, and offers additional tools to enhance the understanding of the role and functions of the audit committee. Along with other guidance issued by the Department of Finance (such as the *Commonwealth Performance Framework*), it aims to frame the review work of an audit committee. This guide also includes tools designed to assist accountable authorities to establish a well-functioning audit committee.

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[1] Elizabeth Alexander AM, David Thodey AO, *Independent Review into the operation of the Public Governance, Performance and Accountability Act 2013,* p.25

[2] See JCPAA Report 469, *Commonwealth Performance Framework*.

Appendix A provides examples of matters that the committee could consider in reviewing the appropriateness of the matters listed in section 17 of the *Public Governance Performance and Accountability Rule 2014* (PGPA Rule) and includes a skills matrix.

Appendix B assists the accountable authority to identify skills and experience the audit committee requires in order to perform its role effectively.

The structure of this guide reflects the elements that are necessary to include in the accountable authority's written charter for the audit committee, including the audit committee's functions, structure and conduct. As such, this guide can be a model for the accountable authority to follow when developing its own audit committee charter.

This guide replaces:

- Resource Management Guide No. 202: Audit committees for Commonwealth entities and Commonwealth companies (issued in 2014)
- Information sheet for Commonwealth entities on audit committees and performance reporting.

Relevant legislation

The Public Governance, Performance and Accountability Act

Section 45 of the Public Governance, Performance and Accountability Act 2013 provides as follows:

Section 45—Audit committee for Commonwealth entities

(1) The accountable authority of a Commonwealth entity must ensure that the entity has an audit committee.

(2) The committee must be constituted, and perform functions, in accordance with any requirements prescribed by the rules.

The Public Governance, Performance and Accountability Rule

Section 17 of the Public Governance, Performance and Accountability Rule 2014 provides as follows:

Section 17—Audit committee for Commonwealth entities

Guide to this section

The purpose of this section is to set out minimum requirements relating to establishing an audit committee for a Commonwealth entity to help ensure that the committee provides independent advice and assurance to the entity's accountable authority. While an audit committee needs to be established for each Commonwealth entity, and the accountable authority must determine the functions the committee is to perform for the entity, this section does not prevent the same audit committee being established for multiple Commonwealth entities.

This section is made for subsection 45(2) of the Act.

Functions of the audit committee

(1) The accountable authority of a Commonwealth entity must, by written charter, determine the functions of the audit committee that is established for the entity as required by subsection 45(1) of the Act.

(2) The functions must include reviewing the appropriateness of the accountable authority's:

(a) financial reporting; and

(b) performance reporting; and

(c) system of risk oversight and management; and

(d) system of internal control;

for the entity.

Membership of the audit committee

(3) The audit committee must consist of at least 3 persons who have appropriate qualifications, knowledge, skills or experience to assist the committee to perform its functions.

[subsection (4) and (4AA) applies in relation to an audit committee on and after 1 July 2021]

(4) If the entity is a non-corporate Commonwealth entity:
  (a) all of the members of the audit committee must be persons who are not officials of the entity; and
  (b) a majority of the members must be persons who are not officials of any Commonwealth entity.

(4AA) If the entity is a corporate Commonwealth entity, all of the members of the audit committee must be persons who are not employees of the entity.

(4A) However, a person employed or engaged primarily for the purpose of being a member of the audit committee is to be treated, for the purpose of subsection (4) or (4AA) as not being an official or employee of the entity.

(5) Despite subsections (3) to (4A), the following persons must not be a member of the audit committee:

  (a) the accountable authority or, if the accountable authority has more than one member, the head (however described) of the accountable authority;

  (b) the Chief Financial Officer (however described) of the entity;

  (c) the Chief Executive Officer (however described) of the entity.

Subdivision B – Annual report for corporate Commonwealth entities

This section is made for subsection 46(3) of the Act.

17BE Contents of annual report

[subsection (taa) applies in relation to an annual report for a reporting period that begins on or after 1 July 2019]

The annual report for a corporate Commonwealth entity for a reporting period must include:

(taa) the following information about the audit committee for the entity:

  (i) a direct electronic address of the charter determining the functions of the audit committee for the entity;

  (ii) the name of each member of the audit committee during the period;

  (iii) the qualifications, knowledge, skills or experience of those members;

  (iv) information about each of those members' attendance at meetings of the audit committee during the period;

  (v) the remuneration of each of those members.

APPROPRIATENESS definition

For the purposes of the PGPA Act, PGPA Rule, and this guidance, and consistent with rules of statutory interpretation, 'appropriateness' has its ordinary meaning of 'suitable or fitting for a particular purpose'[3].

[3] Macquarie Australia's National Dictionary, Concise Dictionary, Third Edition, *definition of 'appropriateness',* p. 47.

Corporate Commonwealth entity's enabling legislation

Accountable authorities and audit committee members need to be aware of any legislative requirements specific to the relevant CCE, for example in the enabling legislation of the CCE, which may affect the audit committee's functions.

Governance structure of CCEs

In delivering their functions, CCEs are subject to the PGPA Act and their enabling legislation. A CCE's functions and governance structure are generally set out in the entity's enabling legislation. The governance structure of a CCE will usually have the governing body of the entity, often a multi-member body (however described), as the CCE's accountable authority. Non-executive members are usually independent, as they are not employees of the entity. However, some CCEs have a single person as the accountable authority for PGPA Act purposes. The variation in governance structures can affect the relationship between the accountable authority and the audit committee.

This guide will principally focus on those entities that have a multi-member body (henceforth referred to as the board) as the accountable authority of the entity. These entities will most commonly have their audit committee as a sub-committee of the board. For those CCEs with a single person as accountable authority, the audit committee's composition, and relationship to the accountable authority generally resembles that of a non-corporate Commonwealth entity, discussed in *RMG 202: a guide for non-corporate Commonwealth entities on the role of audit committees*.

Elements of the audit committee charter

Under the PGPA Rule, the accountable authority of a Commonwealth entity must determine the functions of the entity's audit committee by written charter (the charter) (subsection 17(1)).

From a reporting period that begins on or after 1 July 2019 each corporate Commonwealth entity's audit committee charter must be publically available through its annual report (PGPA Rule s17BE(taa)).

The PGPA Rule (subsection 17(2)) states the functions must include reviewing the appropriateness of the accountable authority's financial reporting, performance reporting, system of risk oversight and management, and the system of internal control for the entity. Once these mandatory requirements are met, the board may want to specify other functions of the audit committee as well as other matters relevant to the committee's operation. The charter should be developed to meet the needs of the board, allowing for its entity's objectives and culture and the context in which it operates.[4]

The following are some matters the board may consider when developing their written charter and will be discussed in more detail in this guide:

[4] Auditing and Assurance Standards Board, Australian Institute of Company Directors & Institute of Internal Auditors—Australia, *Audit Committees: A guide to good practice*, 3rd edition, p. 49.

- requirements on the audit committees advice and reporting
- the membership of the audit committee—including relevant skills and qualifications
- the conduct of the audit committee—including communications with officials of the entity and the ANAO, administrative arrangements relating to meetings, and processes for managing potential conflicts of interest (unless it is already managed through the board's conflict of interest process)
- the period for which audit committee members will be appointed, and also make provision for short-term membership if required
- an arrangement to access all information necessary to enable the audit committee to effectively advise the board on its (the committee's) functions
- how the performance of the audit committee will be assessed.[5]

The charter should be updated as needed, noting that the audit committee reports regularly to the rest of the board, and the board may refer additional matters to the audit committee's attention as required.

Audit and risk committees

The Independent Review made two recommendations related to entities' engagement with risk and their audit committees.

Recommendation 14 recommended, in part, that accountable authorities of large Commonwealth entities, or entities with complex risks, consider establishing a separate risk committee, with an independent chair and membership linkage with the audit committee to strengthen the governance of risk.

Establishing a separate risk committee is not mandated. It is up to the accountable authority to determine the most appropriate governance arrangement for their entity and whether a separate committee focused on risk will contribute to better risk management outcomes for the entity.

If an accountable authority establishes a separate risk committee there needs to be clarity regarding the roles of the risk committee, the Chief Risk Officer (if one is appointed) and the audit committee and clear lines of communication between them. Any such arrangements should not dilute the statutory functions of the audit committee to review the appropriateness of the accountable authority's system of risk oversight and management, nor the responsibility of the accountable authority, senior management and other officials to manage and engage with risk as an integral part of their responsibilities.

Recommendation 15 recommended that where a separate risk committee is not established, audit committees should be called 'audit and risk committee' to reinforce the important role of audit committees in supporting accountable authorities in managing and engaging with risk.

[5] Auditing and Assurance Standards Board, Australian Institute of Company Directors & Institute of Internal Auditors—Australia, *Audit Committees: A guide to good practice*, 3rd edition, p. 50.

This approach is at the discretion of the accountable authority, noting that any such committee would be considered the audit committee for PGPA framework purposes and be required to comply with section 17 of the PGPA Rule.

Part 1 Functions of the audit committee

The PGPA Rule requires that an accountable authority of a Commonwealth entity determine by written charter, the functions of the audit committee established for the entity (subsection 17(1)). At a minimum, those functions must include reviewing the appropriateness[6] of the accountable authorities financial and performance reporting, the systems of risk oversight and management, and internal control for the entity. Advice from the audit committee assists the board to meet its broader duties and responsibilities under the PGPA Act.

When the audit committee is a sub-committee of the board it should inherently have sound knowledge of the entity's operating context. The board will need to ensure that the audit committee collectively has the necessary skills and expertise to advise on all the matters required by subsection 17(2). Using its skills and experience, the audit committee reviews the information provided to it by internal audit and the entity's management. In order to understand and review the entity's processes and systems the committee also actively pursues information from relevant areas of the entity.

1.1 Financial reporting review

The PGPA Rule requires that the audit committee review the appropriateness of the accountable authority's financial reporting for the entity (subsection 17(2) (a)). This could entail the audit committee reviewing the financial information systems and the appropriateness of the entity's financial reporting—including compliance with the mandatory requirements of the PGPA Act, the PGPA Rules, the Accounting Standards and supporting guidance.

1.1.1 Duties and responsibilities of the accountable authority directly related to financial record-keeping and reporting

The PGPA Act requires an accountable authority of a Commonwealth entity to do the following:

- govern the entity in a way that promotes the proper use and management of public resources (subsection 15(a)) and promotes the financial sustainability of the entity (subsection 15(c))
- cause accounts and records to be kept that properly detail and explain the entity's transactions and financial position (subsection 41(1))

[6] 'Appropriateness' has its ordinary meaning: suitable or fitting for a particular purpose.

- ensure that the accounts and records are kept in a way that complies with any requirements prescribed by the rules
- enable the preparation of the annual financial statements required by sections 42 (Commonwealth entities) and 48 (Australian Government) and allows those financial statements to be conveniently and properly audited
- prepare, as soon as practicable after the end of the reporting period, annual financial statements for the entity that comply with the accounting standards and any other requirements prescribed by the rules (subsection 42(1)) and present fairly the entity's financial position, financial performance and cash flows (subsection 42(2)).

It is a requirement of the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (the FRR) that the accountable authority of a Commonwealth entity provide signed certification stating the following:

- whether the annual financial statements, in its view, comply with subsection 42(2) of the PGPA Act (subsection 10(a))
- whether the annual financial statements, in its view, have been prepared on the basis of properly maintained financial records as per subsection 41(2) of the PGPA Act and other requirements (subsections10(b) to 10(g)).

Further, subsection 18(4) of the FRR requires that information not reported in the Commonwealth entity's annual financial statements but required as part of the Australian Government consolidated financial statements, be made available to the Department of Finance at the time and in the format required.

Further information about an accountable authority's financial reporting requirements is available on the ***Finance website***.[7]

1.1.2 Role and functions of the audit committee

The following are among the activities the audit committee could undertake to fulfil the financial reporting review function:

- review the entity's processes and systems for preparing financial reporting information
- review the processes in place to allow the entity to stay informed throughout the year of any changes or additional requirements in relation to financial reporting
- review the annual financial statements.

1.1.3 Audit committee deliverables

An audit committee's charter can clarify its deliverables by specifying the content and level of detail expected in advice by the audit committee to the board about the appropriateness of the board's financial reporting.

Consistent with the requirements of accountable authorities under the PGPA Act regarding accounts, records and the preparation of annual financial statements (sections 41 and 42),

[7] https://www.finance.gov.au/government/financial-reporting-accounting-policy

the advice to the board from its audit committee should be documented in the form of a written statement of its view of the appropriateness of the board's financial reporting.

The audit committee should report its findings and views to the board to provide comfort that its financial reporting is appropriate, and to provide references and suggestions for systems and process improvement.

Through the audit committee charter, for example, the board could require the committee to produce a statement as to whether:

- the annual financial statements, in the committee's view, comply with the PGPA Act, the PGPA Rules, the Accounting Standards and supporting guidance
- additional entity information (other than financial statements) required by Finance for the purpose of preparing the Australian Government consolidated financial statements (including the supplementary reporting package) comply with the PGPA Act, the PGPA Rules, the Accounting Standards and supporting guidance
- a statement to the board in respect of the appropriateness of the entity's financial reporting as a whole, with reference to any specific areas of concern or suggestions for improvement.

1.2 Performance reporting review

Under the PGPA Act and the PGPA Rule accountable authorities have a number of duties, and obligations, relating to the performance of CCEs; this includes the preparation of annual performance statements. The audit committee can support the board by providing independent advice through reviewing the appropriateness of the board's performance reporting. An understanding of the board's performance reporting duties and obligations is essential if an audit committee is to perform this function effectively.

1.2.1 Duties and responsibilities of the accountable authority directly related to performance reporting

It is a requirement of the PGPA Act that the accountable authority of a Commonwealth entity do the following:

- govern the entity in a way that promotes the achievement of the purposes of the entity (subsection 15(1)(b))
- prepare a corporate plan for the entity at least once each reporting period (subsection 35(1))
- cause records to be kept that properly detail and explain the entity's performance in achieving its purposes (subsection 37(1)) and enable the preparation of annual performance statements (subsection 37(2))
- measure and assess the performance of the entity in achieving its purposes in compliance with the PGPA Rule (subsections 38(1) and 38(2))

- prepare annual performance statements that provide information about the entity's performance in achieving its purposes (subsection 39(2) (a)).

The PGPA Rule contains further details, providing that the accountable authority of a Commonwealth entity must do the following:

- produce a corporate plan for the entity that includes - the purposes of the entity, its key activities, the operating context and details of how the performance of the entity in achieving its purposes will be measured and assessed (section 16E)
- produce an annual performance statement that sets out the result of the measurement and assessment outlined in the corporate plan and any related budget statements (section 16F).

The *Finance Secretary's Direction - Requirements for Performance Information included in Portfolio Budget Statements*[8] (PBS) sets out what an entity must do in respect to the provision of performance information in the PBS.

Some enabling legislation may also impose performance reporting requirements on a CCE, as might other instruments, such as a ministerial direction or an intergovernmental agreement.

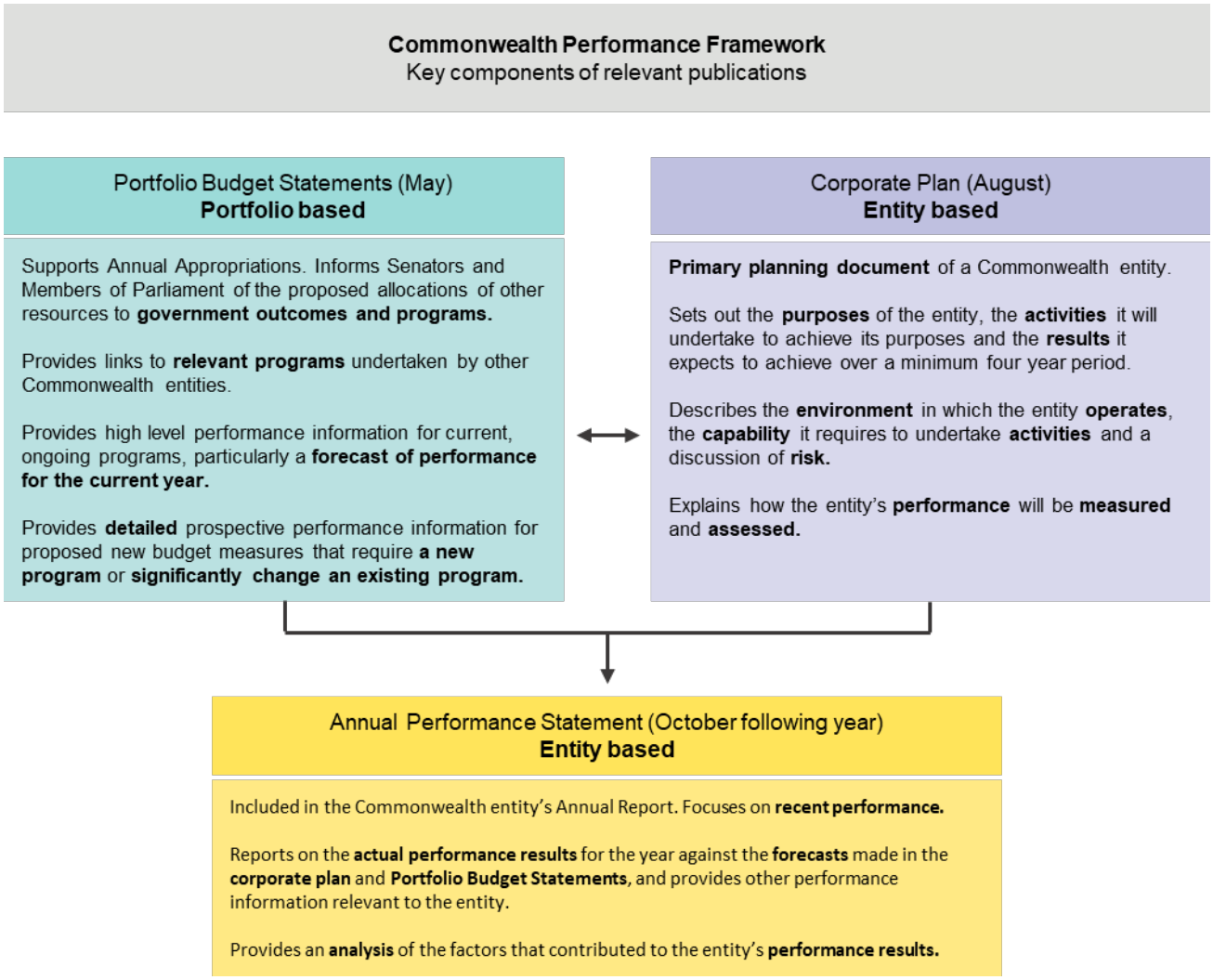
1.2.2 Role and functions of the audit committee

The PGPA Rule requires that the functions of an audit committee include reviewing the appropriateness of the accountable authority's performance reporting for the entity (subsection 17(2)(b)).

To fulfil this function an audit committee must review the entity's performance information, systems and framework and the completeness and appropriateness of performance reporting. The review would include information provided in the Corporate Plan, the Portfolio Budget Statements and the Annual Performance Statements.

The establishment of a performance framework across Commonwealth entities is a key element of the PGPA Act. The following diagram outlines the key components of the Commonwealth performance framework.

[8] https://www.finance.gov.au/sites/default/files/2019-11/untitled.pdf



It is recognised that some entities will periodically review their approach to performance reporting. Audit committees can have a significant role in assisting entities in undertaking such reviews.

Resource Management Guide 131 – Developing Performance Measures provides guidance on developing performance measures.

The performance measures for an entity meet the requirements of section 16EA if, in the context of the entity's purposes or key activities, they:

	Requirements for performance measures	**Description**
(a)	relate directly to one or more of the entity's purposes or key activities	The performance measures should be directly aligned to what the entity is trying to achieve, as outlined in an entity's purposes or key activities.
(b)	use sources of information and methodologies that are reliable and verifiable	Performance measures should be supported by clearly identified data sources and methodology. Data sources should provide data that is reliable and able to be verified. The methodologies used to assess performance

		should be able to produce data that is reliable, be applied consistently, and be able to be substantiated.
(c)	provide an unbiased basis for the measurement and assessment of the entity's performance	The performance measures should provide an objective basis for assessment. This means that performance measures, together with the details of data sources and methodologies, should provide confidence to a reader that the basis of measurement is free from bias.
(d)	where reasonably practicable, comprise a mix of qualitative and quantitative performance measures	Where reasonably practicable, the assessment of performance should be supported by a mix of qualitative and quantitative performance measures. This recognises that there may be circumstances where an entity will have only qualitative or only quantitative measures.

Resource Management Guide 131, along with ANAO reports on the implementation of annual performance statement requirements should assist audit committee's in assessing the appropriateness of an entity's performance reporting.

The following are among the activities the audit committee could undertake to fulfil its review function:

- review the entity's systems and procedures for assessing, monitoring and reporting of the entity's performance. In particular, the committee could satisfy itself that
  - the entity's Portfolio Budget Statements and corporate plan contain appropriate details of how the entity's performance will be measured and assessed
  - the entity's approach to measuring its performance throughout the reporting period against the performance measures included in its Portfolio Budget Statements and corporate plan is appropriate and in accordance with the *Commonwealth Performance Framework..* This may include reviewing, over time, particular elements of the performance measures
  - the entity has appropriate systems and processes for preparation of its annual performance statement and inclusion of the statement in its annual report.
- review the annual performance statements and provide advice to the board on their appropriateness to the entity.

1.2.3 Audit committee deliverables

Consistent with the requirements on accountable authorities under the PGPA Act regarding records about performance (section 37), advice to the board from the audit committee should be documented[9] in the form of a written statement of its view on the appropriateness of the board's performance reporting. An audit committee's charter can clarify its deliverables by specifying the content and level of detail expected in advice the audit committee provides.

The audit committee should report its findings and views to the board to provide comfort that its performance reporting is appropriate, and to provide references and suggestions for systems and process improvement.

For example, through the audit committee charter, a board could require the following:

- a statement of the audit committee's view in relation to the appropriateness of the entity's annual performance statements, and the performance reporting as a whole including compliance with the PGPA Act and Rule, referring to any specific suggestions for improvement or areas of concern.

1.3 Review of System of risk oversight and management

At sub-section 16 (a) the PGPA Act places a duty on the accountable authority to establish and maintain an appropriate system of risk oversight and management for the entity. The accountable authority's risk appetite may be influenced by the CCE's enabling legislation or other instruments (such as a ministerial direction) in relation to certain activities.

The board is responsible for creating and monitoring the appropriate risk management framework for their entity. The framework highlights the board's risk appetite and risk management strategy for the entity.

In 2014, to help entities understand the requirements for managing risk, the Australian Government released *the Commonwealth Risk Management Policy (CRMP)*. CCEs are not required to comply with the CRMP, but may choose to review and, if appropriate to their entities operating context, align their risk management frameworks and systems with this policy as a matter of good practice.

1.3.1 Duties and responsibilities of the accountable authority directly related to risk management

It is a requirement of the PGPA Act that the accountable authority of a Commonwealth entity establish and maintain an appropriate system of risk oversight and management for the entity (subsection 16(a)).

The PGPA Rule requires the accountable authority of a Commonwealth entity to take all reasonable measures to prevent, detect, and deal with fraud relating to the entity (section 10).

Fraud is one of the risk related issues that PGPA framework has particular requirements for. However, the review of appropriateness of the accountable authority's system or risk oversight and management would include all aspects of risk management for the entity.

1.3.2 Role and functions of the audit committee

In relation to risk management, the audit committee supports the board by reviewing the appropriateness of its system of risk oversight and management. The audit committee's consideration of the system of risk oversight and management would be informed by the entity's purpose and specific operating context. For example, the audit committee of an entity

managing public collections of art may focus on risk associated with safety and maintenance of those collections.

The audit committee role would include reviewing whether identified risks and their treatments are consistent with the committee's understanding of the entity's operating context and the committee's experience in risk management.

The following are examples of the activities the audit committee could undertake to fulfil its review function:

- review whether management has a current and appropriate enterprise risk management framework and the necessary internal controls for the effective identification and management of the entity's risks
- satisfy itself that an appropriate approach has been followed in managing the entity's key risks—including those associated with individual projects and program implementation and activities
- review the process of developing and implementing the entity's fraud control arrangements consistent with the PGPA Rule requirements (section 10) and satisfy itself that the entity has adequate processes for detecting, capturing and effectively responding to fraud risks
- review whether management has adequately developed risk management capability in the entity and whether key roles, responsibilities and authorities relating to risk management are clearly articulated and adhered to in the entity.

1.3.3 Audit committee deliverables

It is expected that an audit committee will provide advice in the form of a statement of its view in relation to the appropriateness of the board's system of risk oversight and management. This advice should be documented.

The audit committee should report its findings and views to provide comfort to the board that its risk system is appropriate, and where appropriate provide references and suggestions for systems and process improvement.

For example, through the audit committee charter a board could require:

- a statement in relation to the appropriateness of the entity's systems for risk oversight and risk management as a whole, with reference to the entity's risk management framework and any specific areas of concern or suggestions for improvement.

1.4 System of internal control review

At sub-section 16(b) the PGPA Act places a duty on the accountable authority to establish and maintain an appropriate system of internal control for the entity.

An understanding of the entity's internal control framework and operating context and the board's risk appetite is necessary if an audit committee is to perform this function effectively.

1.4.1 Duties and responsibilities of the accountable authority directly related to internal controls

Accountable authorities are responsible for leading, governing and setting the strategic direction for their entities. As part of this, they must ensure their own (and their entity's) compliance with various Commonwealth legislative and policy requirements, including the following:

- the entity's enabling legislation
- employment legislation—including the *Public Service Act 1999* when applicable, and the *Work Health and Safety Act 2011*
- information management legislation—including freedom of information requirements and the *Privacy Act 1988*.

Accountable authorities are expected to establish and maintain other systems and processes that facilitate good governance—for example, internal audit processes, business continuity management, and promotion of a positive entity culture.

For further information about an accountable authority's system of internal control obligation, see the *Finance website*.[10]

The PGPA Act requires that the accountable authority of a Commonwealth entity to do the following:

- govern the entity in a way that promotes the proper use and management of public resources (subsection 15(a))
- establish and maintain an appropriate system of internal control for the entity (subsection 16(b))
- implement measures directed at ensuring that officials of the entity comply with the finance law (section 16).

To assist in meeting these obligations, the accountable authority of a Commonwealth entity may, by written instrument, give instructions to an official of the entity in respect of any matter relating to the finance law (subsection 20A(1)).

1.4.2 Role and functions of the audit committee

It is a requirement of the PGPA Rule that the functions of an audit committee include reviewing the appropriateness of the accountable authority's system of internal control for the entity (subsection 17(2)(d)).

[10] https://www.finance.gov.au/government/managing-commonwealth-resources/managing-risk-internal-accountability.

The board can expect that the audit committee take a risk-based approach[11] to reviewing the appropriateness of the board's system of internal control. This includes whether the key elements of internal control are present.

Although a detailed assessment of the internal control system is beyond the scope of the audit committee's general responsibilities, its review of the adequacy and relevance of the entity's financial and non-financial internal controls would be informed by the entity's purposes and specific operating context. For example, the audit committee of an entity that deals with international arrangements may focus on the compliance with any international treaties that may apply to these arrangements.

An internal audit can actively assist the audit committee in the periodic reviews of the entity's internal controls by suggesting, and delivering, specific reports with a focus on the entity's current risks affecting internal control.

The following are among the activities the audit committee could undertake to fulfil its review function:

- internal control framework
  - reviewing management's approach to maintaining an effective internal control framework and whether appropriate processes are in place for assessing whether key policies and procedures are complied with
  - reviewing whether management has in operation relevant policies and procedures— (e.g. accountable authority instructions, delegations/authorisations, a business continuity management plan or bullying and harassment policies).
- legislative and policy compliance
  - reviewing the effectiveness of systems for monitoring the entity's compliance with laws, regulations and associated government policies with which the entity must comply
  - determining whether management has adequately considered legal and compliance risks as part of the entity's enterprise risk management framework, fraud control framework and planning
- security compliance
  - reviewing management's approach to maintaining an effective internal security system and ICT security policy
- internal audit coverage
  - reviewing the proposed internal audit coverage, ensuring that the coverage takes into account the entity's primary risks, and recommending approval of the internal audit work plan by the board

[11] The frequency of review, and areas of the system of internal control to be reviewed, will be guided by the board's requirements, appetite for risk and the entity's operating context.

  - reviewing all internal audit reports, providing advice to the board on major concerns identified in those reports, and recommending action on significant matters raised—including identification and dissemination of information on good practice.

- external audit and reviews

  - reviewing external reports (Auditor-General, JCPAA and other parliamentary committees, Royal Commissions etc.), and the relevance of recommendations to the entity. Many of the external audit recommendations can have wider implications and promote better practice, and

  - reviewing the implementation of agreed recommendations from ANAO audits or JCPAA and other parliamentary committee reports directed to the entity.

1.4.3 Audit committee deliverables

It is expected that an audit committee will provide advice in the form of a statement of its view in relation to the appropriateness of the board's system of internal control. The frequency of review and type of advice on the system of internal control function will be guided by the board's requirements, appetite for risk and the entity's operating context. Advice provided by the audit committee in relation to the appropriateness of the system of internal control should be documented.

The audit committee should report its findings and views to provide comfort to the board that its internal control system is appropriate, and to provide references and suggestions for systems and process improvement.

The board's audit committee charter could require:

- a statement in relation to the appropriateness of the entity's systems for internal control, with reference to any specific areas of concern or suggestions for improvement.

1.5 Additional functions of the audit committee

A board might require the audit committee to perform functions additional to those prescribed by the rule. Any additional functions should be documented in the audit committee charter.

For example, the board may include some or all of the following additional requirements in their audit committee charter:

- business continuity

  - satisfying itself that an appropriate approach has been taken in establishing business continuity planning arrangements—including whether business continuity and disaster recovery plans have been periodically updated and tested

- ethical and lawful conduct

  - assessing whether the board has taken steps to embed a culture that promotes the proper use and management of public resources and is committed to ethical and lawful conduct

- subsidiary responsibilities—for audit committees of entities that have subsidiary entities
  - satisfying itself that appropriate mechanisms exist for the board to be informed of all significant issues within its entity's subsidiary entities
- parliamentary committee reports, external reviews and evaluations
  - satisfying itself that the entity has appropriate mechanisms for reviewing relevant parliamentary committee reports, external reviews and evaluations of the entity and implementing, where appropriate, any resultant recommendations.

Part 2 Membership and structure of the audit committee

The PGPA Rule requires that the audit committee must consist of at least three persons who have appropriate qualifications, knowledge, skills or experience to enable the committee to perform its functions. The audit committee is required to collectively possess the expertise necessary to effectively advise the board.

2.1 Individuals to be excluded

To promote the independent nature of an audit committee, the PGPA Rule excludes the following persons from being members of the audit committee:

- the accountable authority or, if the accountable authority has more than one member, the head (however described, usually the chair of the entity's board) of the accountable authority
- the Chief Financial Officer (however described) of the entity
- the Chief Executive Officer (however described) of the entity.

However, the attendance of key management personnel as observers at relevant meetings, such as the Chief Executive Officer and Chief Financial Officer may assist the audit committee in its functions. This can contribute to the overall effectiveness of the audit committee even though it might be necessary for observers to attend only part of a meeting in order to help ensure the audit committee's independence.

2.2 Independent committee members

From 1 July 2021 the PGPA Rule requires that all members of the audit committee not be employees of the entity. Non-executive board members are not considered employees of the entity.

To effectively deliver its function, the audit committee needs to be independent from management. It is expected that the audit committee members have no executive powers or delegated responsibilities while acting in the capacity of a member of the audit committee[12].

[12] Auditing and Assurance Standards Board, Australian Institute of Company Directors & Institute of Internal Auditors—Australia, *Audit Committees: A guide to good practice*, 3rd edition, p. 10.

Some entities may wish to source additional audit committee members from outside the board to meet the requirement that the audit committee consist of at least three persons who have appropriate qualifications, knowledge, skills or experience to assist the committee to perform its functions (s.17(3)).

To assist accountable authorities, a list of professional peak bodies is available on the *Department of Finance website*[13] that could be of use when accountable authorities are seeking suitable additional candidates for membership of audit committees for corporate Commonwealth entities. The list is not exhaustive and there is no requirement to use it.

2.3 Members' skills and experience

The audit committee must contain a combination of members who have appropriate qualifications, knowledge, skills or experience to enable the committee to perform its functions.

The board should consider audit committee candidates who have the capacity to understand the business and operating context of the entity.

Both the JCPAA[14] and the ANAO[15] have emphasised that accountable authorities, 'need access to qualified and reliable people … who are able to get across the brief and understand the business', noting the 'breadth of responsibilities' audit committees assume. Collectively, audit committee members should possess relevant technical skills, appropriate policy and subject matter knowledge, and a strong understanding of the entity's operating context.

The Independent Review directed Recommendation 18 to accountable authorities to ensure that their audit committee members, both individually and as a group, have the appropriate qualifications, knowledge, skills and experience to meet their responsibilities under the PGPA Rule, and to ensure the committee members are sourced broadly, with greater representation from other industries, sectors and locations.

Occasionally it might be appropriate for the audit committee to seek external specialist advice if it is impractical to maintain particular specialist expertise within the committee. This could be necessary if the entity has a temporary risk exposure—for example, during a large or high-risk IT project or a major new program design process.

The skills matrix at Appendix B might be of use when boards are reviewing the skills and experience required by audit committee members.

2.4 Remuneration

The level of remuneration of audit committee members will be influenced by the committee's composition and individual member's qualifications, knowledge, skills and experience. In addition, entities differ in size and complexity, which requires differing effort from committee members to deliver their functions effectively. Accountable authorities may also require

[13] http://www.finance.gov.au/resource-management/accountability/audit-committees/
[14] JCPAA, Report 463, *Commonwealth Financial Statements,* p. 44.
[15] Ms Mellor, ANAO, *Committee Hansard, 22 March 2017,* p. 5.

additional functions to be undertaken, beyond those mandated by the PGPA Act, which would also affect the committee members' scope of work and level of remuneration.

The Independent Review directed Recommendation 18(c) to accountable authorities to ensure the remuneration of audit committee members is commensurate with the importance of their responsibilities and the commitment required.

2.5 Rotation of committee members

It is important to rotate the audit committee members to allow for a flow of skills and talent through the committee, enhancing its effectiveness and ensuring its objectivity.

The Independent Review directed Recommendation 19 to accountable authorities to establish an audit committee membership rotation policy, with maximum appointment terms to ensure regular rotation of committee membership. The Finance Secretary wrote to all accountable authorities in August 2019 drawing their attention to this Recommendation.

The PGPA Act does not mandate minimum and maximum periods of appointment for audit committee members.

For any audit committee members the frequency of rotation would need to be balanced against the time it takes to develop experience and knowledge of the entity's operations and to develop productive relationships with the entity's officials and other audit committee members.

The board may choose to adopt a phased approach to the rotation of members to preserve an appropriate level of knowledge and experience on the committee.

2.6 Members of multiple committees

Audit committee members need to develop and maintain a good understanding of the entity's functions, objectives and operational context. Audit committee members drawn from the entity's board would typically have very good understanding of the entity's functions, objectives and operational context. Members who are external to the entity need to develop and maintain such knowledge to contribute effectively to the delivery of the committee's functions under the PGPA Act.

The ANAO[16] and the JCPAA[17] have noted the issue of members holding multiple audit committee roles. An audit committee's effectiveness can be enhanced by having members with experience on other public sector, or private sector, audit committees and with networks to other entity audit committees. However, membership of multiple audit committees needs to be balanced against the ability to understand the issues and operating context of a specific entity.

Under the PGPA Act, the audit committee's role has shifted to include a focus on non-financial performance reporting. To be able to provide useful and relevant advice to the accountable authority, the audit committee should have the capacity to understand the entity,

[16] ANAO Report no. 33, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2016*, p. 33.
[17] JCPAA Report 463, *Commonwealth Financial Statements*, p. 44.

its operating environment and the risks it faces. It may be challenging for audit committee members to gain this understanding if they are over-committed on multiple audit committees.

The PGPA Act does not mandate the maximum number of audit committees a member can serve on and the optimum number of audit committees a member serves on will depend on the circumstances. [18]

2.7 The committee chair

It is better practice[19] that the board appoints a chair to assist in delivery of the audit committee functions. Typically, the audit committee chair is responsible for implementing the committee's agenda, work program and deliverables. The chair also provides leadership and determines the culture and behaviour of the committee. An effective chair can be the key to an effective committee.

When considering the appointment of the audit committee chair, the board might consider the personal attributes necessary for managing the overall effectiveness of the committee.

Part of the chair's role is to maintain effective relationships with the board, senior management and other committee members and stakeholders, including the Australian National Audit Office. The chair is expected to lead committee discussions and to manage meetings in an efficient and effective manner.

2.8 Shared audit committees

In some circumstances, it can be useful for two or more entities to establish a shared audit committee. This might be practical, for example, if small entities (with a smaller number of board members or single accountable authority) operate in a similar context. This could be within the same portfolio or across different portfolios where entities are performing similar functions. A sharing arrangement can leverage the skills and experience of the audit committee to advise effectively the multiple accountable authorities.

The Independent Review directed Recommendation 21 to accountable authorities of Commonwealth entities, particularly those with limited resources and similar purposes, to consider sharing and audit committee with the aim of achieving efficiencies, cost savings and leveraging off shared learning. The Finance Secretary wrote to all accountable authorities in August 2019 drawing their attention to this Recommendation.

Governance arrangements for a shared audit committee do need to ensure there are adequate mechanisms for input and oversight of the committee for all entities involved in the shared arrangement.

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[18] Other jurisdictions do mandate a maximum number of audit committee memberships. For example, in New South Wales prequalified independent chairs and members may be appointed to up to five NSW audit and risk committees. See *https://www.procurepoint.nsw.gov.au/scm2421* accessed on 15 December 2017.

[19] Auditing and Assurance Standards Board, Australian Institute of Company Directors & Institute of Internal Auditors—Australia, *Audit Committees: A guide to good practice*, 3rd edition, p. 55.

Part 3 Conduct of the audit committee

In addition to detailing the membership and functions of the audit committee, the board's charter for the audit committee can document how the committee is to conduct itself.

The board might wish to include some or all of the following additional requirements in their audit committee charter.

3.1 Engaging with stakeholders

The charter could specify how the audit committee is to engage with officials and key stakeholders of the entity. The board may wish to consider:

- requirements relating to how audit committee members will engage with the Chief Executive Officer, other officials in senior management and the ANAO in discharging their advisory responsibilities and formulating their advice to the board
- requirements relating to how audit committee members will engage with any subcommittees if established by the audit committee, or the entity's internal audit area
- requirements relating to how the audit committee obtains information in relation to any functions the committee delivers under its charter
- processes for the audit committee to obtain legal or other professional advice, as considered necessary to fulfil its role.

3.2 Important relationships

3.2.1 The accountable authority

An audit committee's primary role is to provide independent advice to the accountable authority. When the audit committee is a subcommittee of the board the audit committee's updates can be delivered as a standing item on the board's meeting agenda, ensuring the audit committee's updates are regular and documented. This structure supports open and two-way communication between the accountable authority and the audit committee, allowing for further requests for information, or changes to the audit committee functions as determined by the board's priorities.

Recommendation 17 of the Independent Review encourages audit committees to develop and maintain a sound working relationship with their accountable authority. It is particularly important when some or all audit committee members are not members of the board.

3.2.2 Chief Executive Officer and senior management

Recommendation 17 of the Independent Review also encourages audit committees to maintain an active relationship with the senior management of their entity. An entity's Chief Executive Officer and senior management can contribute to building a strong relationship with the audit committee by arranging for the chair and/or other committee members to

attend selected management meetings as an observer. Senior management may also attend audit committee meetings to explain specific developments, concerns and projects.

3.2.3 Internal audit

The relationship between the audit committee and the managers of the internal audit function is central to enabling the audit committee to meet its responsibilities.

The internal audit function supports the board in discharging its duties and requirements under the PGPA Act. The relationship between internal audit and the audit committee should be effective in supporting the audit committee's functions. It may be of a value to invite the head of internal audit to attend some audit committee meetings in an advisory capacity.

3.2.4 Induction into the entity's business

It is critical to the audit committee's effectiveness that the independent members of an audit committee are fully inducted into the business of the entity. This is particularly the case for non-board members of the audit committee. This process should occur when new audit committee members are first appointed and, as needed, on an ongoing basis to keep audit committee members up to date on major and emerging issues.

The Independent Review directed Recommendation 20 to encourage accountable authorities to ensure that independent members are inducted into the business of the entity and briefed on its operations and performance on an ongoing basis.

3.3 Administrative arrangements

The board may wish to specify the administrative arrangements in relation to its audit committee. The audit committee charter could include details of:

- **annual work plan —** any requirements relating to the development of an audit committee's annual work plan, detailing actions to be taken in order to perform the committee's functions and the provision of advice to the accountable authority
- **a program of induction —** any requirements for the committee members to undertake a program of induction , to help new committee members meet their commitments
- **possible sub-committees —** if required, processes and requirements for establishing sub-committees to assist the audit committee in meeting its commitments
- **meetings —** any requirements relating to audit committee meetings, for example:
  - the minimum number and frequency of committee meetings, including any special meetings to consider specific responsibilities of the committee
  - quorum requirements for meetings
  - attendance of senior managers of the entity or representatives of the ANAO and internal audit at audit committee meetings and their roles and functions as advisors and/or observers
  - reporting on the outcomes of audit committee meetings

- **performance review —** criteria to use when assessing the performance of the audit committee.

3.4 The secretariat

It is important for the audit committee to be supported by a high-quality secretariat. The secretariat's responsibilities would generally include the provision of administrative support for committee meetings, maintaining communication channels with internal audit, taking and distributing minutes, and record keeping. The ANAO has highlighted the importance of good record keeping in relation to audit committees.[20]

3.5 Access to and use of information

In order to deliver its functions, the audit committee needs access to all relevant information relating to those functions specified in the charter. The charter for the audit committee should allow for, and specify requirements for access to all information necessary to enable the audit committee to advise effectively the board on its functions.

3.6 Conflict of interest

To help preserve the independence of the audit committee the charter may provide mechanisms for reporting and dealing with any conflicts of interest. The board may consider:

- requirements to disclose (to the accountable authority for consideration) any relationships that could be viewed by others as weakening either the individual's or the audit committee's actual or perceived independence,
- processes for allowing audit committee members to declare potential conflicts of interest and appropriate responses to declarations in particular circumstances.

3.7 Reviewing and assessing committee performance

It is good practice[21] for a board to regularly review the audit committee's performance and assess its conduct and deliverables against the committee charter.

The following are possible matters for consideration:

- identifying and agreeing on the criteria to use when assessing the performance of the committee and documenting this in the committee's charter
- assessing the committee's effectiveness in delivering advice to the board—including the delivery of advice for each of the functions agreed under the charter in the form and time specified in the charter
- reviewing the committee's actions, including

[20] ANAO Report no. 33, *Audit of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2016*, pp. 33–4.
[21] Auditing and Assurance Standards Board, Australian Institute of Company Directors & Institute of Internal Auditors—Australia, *Audit Committees: A guide to good practice*, 3rd edition, p. 67.

  - the committee's formal and informal communication with the board, the Chief Executive Officer, senior management, the internal auditor and other key stakeholders
  - well-maintained documentation of the committee's deliberations—for example, minutes of meetings
  - a well-prepared, well-maintained, up-to-date committee work plan
  - other good practices adopted—for example, a performance review process for members and an induction plan for new members.
- clarifying the process for implementing action plans developed in response to areas identified for improvement.

The following are possible matters for consideration when assessing the attributes of individual committee members:

- a good understanding of, and commitment to, the committee's role and responsibilities
- objectivity and independence
- a good understanding of the entity's operating context
- a good understanding of the entity's financial and performance reporting concerns and obligations
- a good understanding of the entity's risk management and internal control processes
- participation in activities designed to keep their business, industry, financial and regulatory knowledge current
- preparation for, and participation in, audit committee meetings.[22]

In addition, a well-functioning audit committee would regularly assess its own performance, with the findings reported to the board.

Part 4 Annual reporting requirements

From the 2019-20 reporting period the PGPA Rule (s.17BE(taa)) requires that Commonwealth entities include in their annual report the following information related to their audit committee:

- a direct electronic address (hyperlink) to the charter determining the functions of the audit committee;
- the name of each member of the audit committee during the reporting period;
- the qualifications, knowledge, skills or experience of each member of the audit committee;

[22] Auditing and Assurance Standards Board, Australian Institute of Company Directors & Institute of Internal Auditors—Australia, *Audit Committees: A guide to good practice*, 3rd edition, p. 67–8.

- information about each member's attendance at meetings of the audit committee during the reporting period; and
- the remuneration of each member of the audit committee.

Electronic address (hyperlink) of the entity's charter for the audit committee

Section 17 of the PGPA Rule provides requirements in relation to the charter, functions, qualifications and membership of the audit committee. The *Model charter for Commonwealth entities' audit committees* may assist with information about developing a written charter for the audit committee.

Qualifications, knowledge, skills or experience

The audit committee as a whole must contain a combination of members who have appropriate qualifications, knowledge, skills or experience to enable the committee to perform its functions. The entity is required to report each member's qualifications, knowledge, skills or experience that assists the audit committee effectively deliver its role (this could include formal qualifications and experience working in a specific industry).

Attendance at audit committee meetings

Information about each member's attendance at meetings of the audit committee should be expressed in comparison to the total number of audit committee meetings conducted during the reporting period.

Remuneration

Audit committee members are typically engaged under a contract arrangement. For the purposes of audit committee remuneration disclosure, only the remuneration that members receive for being on the audit committee during the reporting period should be reported.

Total remuneration for this purpose excludes any amounts received for other roles performed. For example, where members are also remunerated for being on the board, only the amount received for being on the audit committee should be reported in this section. **Entities should not report the total amount received by the member for all duties performed**. Where possible, remuneration should be reported as GST inclusive. When there is no remuneration for the audit committee member's service, report $0.

The new disclosure requirements align the disclosure of Commonwealth public sector audit committee member's information in relation to names, qualifications, skills, attendance at meetings and remuneration with better practice in the corporate sector.
The ASX *Corporate Governance Principles and Recommendations*[23] recommends that listed companies disclose much of the information included in these items. Therefore, the new requirements ensure that Commonwealth practice matches recommended better practice in the corporate sector to improve transparency and accountability.

[23] ASX Corporate Governance Council—Corporate Governance Principles and Recommendations, 4rd edition, rec 4.1, p. 19–20.

An example of the reporting table is available in Appendix C of this guide. Information on Digital Annual Reporting Tool templates will be available in *RMG 136 Annual report for corporate Commonwealth entities.*

Appendix A: Considerations for audit committees

The following boxes contain some general considerations that could assist audit committees reviewing the functions listed in subsection 17(2) of the PGPA Rule. In view of its knowledge and experience, an audit committee will need to ask more specific, fit for purpose questions relevant to the entity's particular operating context.

Financial reporting review function

Box 1 Financial reporting: audit committee considerations for providing advice

The following are some matters to consider for an audit committee when reviewing the appropriateness of the board's financial reporting:

- Has the committee had access to the information it needs in order to form a view on the appropriateness of the accountable authority's financial reporting, including any necessary certifications from management?
- Is the committee satisfied that the entity has effective processes in place for preparation of financial reports?
- Is the committee satisfied with the entity's process for preparing additional information required by the Department of Finance to prepare the Australian Government consolidated financial statements?
- Is the committee satisfied that
  - any new reporting requirements have been adequately explained?
  - all reports comply with the relevant accounting standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* requirements?
  - balances involving significant judgement and estimation are adequately supported?
  - all significant or unusual transactions have been adequately explained?
  - effective quality assurance processes have been followed?
  - any significant changes to accounting policies for annual financial statements are disclosed?
- Has the committee been fully briefed on any significant matters—including errors or discrepancies in the draft annual financial statements identified by ANAO—and have adjustments been made to the financial statements where appropriate?

- Is the committee satisfied with the entity's processes for staying informed throughout the year of any changes or additional requirements in relation to financial reporting?
- Is the committee satisfied that there is proper financial record keeping?
- Has management taken or initiated action to redress any major control or other shortcomings identified by Finance, the ANAO or internal audit?

Performance reporting review function

Box 2 Performance reporting: audit committee considerations for providing advice

The following are some matters to consider for an audit committee when reviewing the appropriateness of the board's performance reporting:

- Does the committee have a good understanding of the measures against which the entity will assess its performance and how these measures were identified?
- Do they reflect the success of the entity in achieving its purpose?
- Does the committee have a good understanding of the systems, controls and processes that enable the entity to report its performance?
- Does the committee understand who benefits from an entity's activities and how they benefit?
- Is the committee satisfied that the entity's performance reporting arrangements:
  - meet the requirements of the PGPA Act and Rule, and Finance Secretary Direction?
  - meet any requirements of the entity's enabling legislation?
  - have regard to the Commonwealth performance framework guidance material?
  - reflect any comments and recommendations made in relation to ANAO audit reports?
  - cover the entire performance reporting cycle?
- Does the committee have access to the information it needs in order to form a view on the appropriateness of the board's performance reporting, including any necessary certifications from management?
- In undertaking its role, the audit committee may judge that a rolling approach to detailed review is likely to be of greater value than to attempt to cover every performance area in the one year.

System of risk oversight and management review function

Box 3 Risk oversight and management: audit committee considerations for providing advice

The following are some matters to consider for an audit committee when reviewing the appropriateness of the board's system of risk oversight and management:

- Has the committee had access to the information it needs in order to form a view on the appropriateness of the board's system of risk oversight and management, including any necessary certifications from management?
- Is the entity's risk management framework comprehensive, and up to date?
- Does it cover all aspects of the entity's operations and is it sufficient for the entity, having regard to the nature, and extent of the entity's risks, including any requirements under its enabling legislation?
- Have all major risks been identified—including fraud risks—and have strategies for managing those risks been established?
- Has management satisfied the audit committee that it is managing the entity's risks—including that the controls designed to mitigate these risks are relevant and are working effectively and that responsibilities are clearly assigned?
- Has the committee identified information about any significant internal control breakdown or near miss?
- Is the committee satisfied that the entity's management has implemented the lessons learnt and the risks have been reassessed and treated accordingly?
- Does the committee perceive any emerging risks or significant changes to the entity's strategic risks that should be captured by the entity's management and appropriately treated?
- Does the committee receive all information on potential or actual fraudulent activity and the outcomes of fraud investigations?
- Has management satisfied the audit committee that it creates and manages the organisation's risk culture effectively—including whether officials are taking account of risk and the entity's risk appetite in their decision-making?
- Has the committee satisfied itself that the primary roles and responsibilities relating to risk management are clear and work effectively?

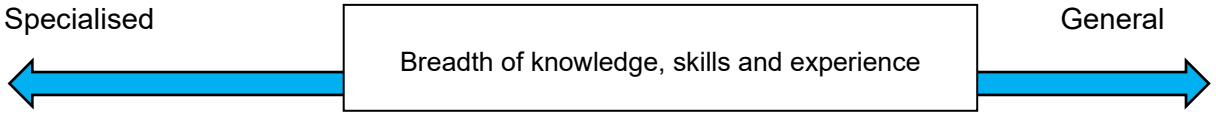
System of internal control review function

Box 4 Internal control: audit committee considerations for providing advice

The following are some matters to consider for an audit committee when reviewing the appropriateness of the board's system of internal control:

- Has the committee had access to the information it needs in order to form a view on the appropriateness of the board's system of internal control, including any necessary certifications from management?
- Are the entity's accountable authority instructions, policies and procedures kept up to date and are they easily accessible to all staff?
- Do the entity's internal controls link to the key risks identified for the entity and are there arrangements for monitoring and assessing their effectiveness and compliance with internal controls?
- Is the committee satisfied that management has effective processes for assessing the adequacy of the entity's information security arrangements—including complying with entity reporting obligations?
- Does the entity have effective controls for services provided to it by other entities or external parties?
- Has management satisfied the audit committee that the entity is aware of its legislative responsibilities and has in place processes designed to identify non-compliance?
- Is the committee satisfied that the entity has in place processes for identifying instances of any significant issues, including significant non-compliance with the finance law, which can affect the entity or its subsidiaries?
- Does the entity have effective processes for notifying its minister and the Minister for Finance of instances of any significant issues?
- Was appropriate mitigation action taken to prevent the issue from recurring in future?
- Is internal audit coverage aligned with the entity's primary risks, and does internal audit have adequate resources to complete its work program within the agreed timeframe?
- Do internal audit reports focus on significant matters, and does management take remedial action as required?
- Does the entity have effective business continuity and disaster recovery plans that are regularly tested and continuously improved?
- Do the board and management effectively communicate to all staff their responsibilities in relation to proper use and management of public resources and ethical behaviour and conduct?

Appendix B: Skills matrix



Audit committee review of:	**Audit committee collective knowledge**	**Each member to be familiar with**	**General desirable skills for each member**
Financial reporting	✓ Accounting and auditing standards ✓ Accounting and financial management	✓ The entity's operating context ✓ PGPA Act and rules ✓ The Commonwealth performance framework ✓ Relevant legislative and policy requirements ✓ The roles of external and internal audit ✓ Entity's Portfolio Budget Statement and government outcomes ✓ Information management and security	✓ Business or industry in which the entity operates ✓ Strategic thinking and awareness of government priorities ✓ Ability to question, enquire and investigate information ✓ Completion of relevant recognised qualification ✓ Research and data interrogation ✓ Audit process management ✓ Program and project management ✓ Strong leadership and stakeholder management
Performance reporting	✓ Sound understanding of the entity's purpose, and its business and services ✓ Sound understanding of an industry/environment the entity is operating in ✓ Sound understanding of the Commonwealth performance framework and expectations for the performance reporting to inform the public and the Parliament		
System of risk oversight and management	✓ Risk identification, evaluation and management in complex organisations ✓ Public/private sector risk management experience ✓ Good understanding of public sector emerging risks and opportunities		
System of internal control	✓ Accountability and internal control resource management guidance ✓ Operations of government and the public sector ✓ Understanding of processes, practices and record keeping in complex organisations ✓ Understanding of compliance and internal control principles revision ✓ Understanding of the key elements of control effectiveness and methodologies of assessment ✓ Understanding of requirements of information and communication technology		

Appendix C: Audit committee information reported in annual report – example

For each member of the audit committee report:				
Member's name	Qualifications, knowledge, skills or experience (include formal and informal as relevant)	Number of meetings attended / total number of meetings	Total annual remuneration (GST inc.)	Additional Information
E.g. John Smith	E.g. Formal accounting, finance and commerce qualifications. Substantial experience (seven years) as CEO of Company Holdings Limited and Manufacturing Limited covering. Working experience in financial statements review and manufacturing industry risk management skills.	3/4	$5,050	E.g. Information critical to interpreting the data provided, such as if a member left the audit committee part way through the reporting period.