Model charter for audit committee

Introduction

The audit committee is integral to good corporate governance and an invaluable source of independent advice for the accountable authority of a Commonwealth entity.

This model audit committee charter (model charter) is a tool that is aimed at assisting accountable authorities and officials supporting accountable authorities, in developing a written charter that determines the functions of the audit committee. The model charter lists legislative requirements and highlights additional matters an accountable authority may wish to consider when developing the charter.

This model is provided as a guide only. Accountable authorities may choose to develop their own approach or use only part of this model, as long as it meets the requirements of the PGPA legislation.

The model charter complements the Resource Management Guides for Commonwealth entities (separate for NCEs and CCEs) on the role of audit committees, and should be read in consultation with that guide.

Grey boxes in this model charter provide advice to accountable authorities.

Legislative functions of audit committees

The Public Governance, Performance and Accountability Act (PGPA Act) requires that accountable authorities of Commonwealth entities ensure that their entity has an audit committee (subsection 45(1)) and that committee is constituted and performs functions in accordance with any requirements prescribed by the associated rules (subsection 45(2)).

Under the Public Governance, Performance and Accountability Rule (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)).

These 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 (subsection 17(2)).

The charter should contain sufficient detail to ensure that the audit committee and other stakeholders are clear about the committee's functions and responsibilities. It should also describe how the committee conducts reviews, including expectations for the advice to the accountable authority, and how to record and retain the committee's advice.

The audit committee charter should be updated as needed to reflect changes to the entity's operating context, new circumstances and the accountable authority's changing needs. Good practice would generally require annual review of the charter to align it with changing circumstances.

Audit committee functions

Financial reporting

The PGPA Rule requires that the audit committee review the appropriateness of the accountable authority's financial reporting for the entity. This would entail the audit committee reviewing compliance with the mandatory requirements of the PGPA Act, the PGPA Rule, the Accounting Standards and also consider advice given in supporting guidance.

Accountable authorities might wish to consider the following requirements in their audit committee charter.

- The audit committee review and provide advice on the appropriateness of the accountable authority's:
  - annual financial statements;
  - information (other than annual financial statements) requested by Finance in preparing the Australian Government's consolidated financial statements, including the supplementary reporting package;
  - processes and systems for preparing financial reporting information;
  - financial record keeping;
  - processes in place to allow the entity to stay informed throughout the year of any changes or additional requirements in relation to the financial reporting.
- The audit committee provide a statement to the accountable authority:
  - whether the annual financial statements, in the committee's view, comply with the PGPA Act, the PGPA Rules, the Accounting Standards and supporting guidance;
  - whether 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;
  - 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.

Performance reporting

The PGPA Rule requires that the audit committee review the appropriateness of the accountable authority's performance reporting for the entity. This would entail the audit committee reviewing the mandatory requirements of the PGPA Act, the PGPA Rule, and also the Commonwealth performance framework and consider advice given in supporting guidance. The review would include information provided in the Corporate Plan, the Portfolio Budget Statement and the Annual Performance Statements.

Accountable authorities might wish to consider the following requirements in their audit committee charter.

- The audit committee review and provide advice on the appropriateness of the accountable authority's:
  - systems and procedures for assessing, monitoring and reporting on achievement 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 financial year 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.
- The audit committee review the annual performance statements and provide advice to the accountable authority on their appropriateness to the entity.
- The audit committee provide a statement to the accountable authority whether, in their view, the accountable authority's annual performance statements and performance reporting as a whole is appropriate, with reference to any specific areas of concern or suggestions for improvement.

Risk oversight and management

The PGPA Rule requires that the audit committee review the appropriateness of the accountable authority's system of risk oversight and management for the entity. This would entail the audit committee gaining a sufficient understanding of the accountable authority's risk appetite and the entity's operating environment, and reviewing the mandatory requirements of the PGPA Act, the PGPA Rule, the Commonwealth Risk Management Policy (mandatory for NCEs and a better practice for CCEs) and also consider advice in supporting guidance.

Accountable authorities might wish to consider the following requirements in their audit committee charter.

- The audit committee review and provide advice on the appropriateness of the accountable authority's:
  - enterprise risk management policy framework and the necessary internal controls for the effective identification and management of the entity's risks, in keeping with the Commonwealth Risk Management Policy (for NCEs);
  - approach to managing the entity's key risks—including those associated with individual projects and program implementation and activities;
  - process for developing and implementing the entity's fraud control arrangements consistent with the fraud control framework, and satisfy itself that the entity has adequate processes for detecting, capturing and effectively responding to fraud risks;

- articulation of key roles and responsibilities relating to risk management and adherence to them by officials of the entity.

- The audit committee provide a statement to the accountable authority whether in their view, the accountable authority's system of risk oversight and management as a whole is appropriate (with reference to the Commonwealth Risk Management Policy for NCEs) and any specific areas of concern or suggestions for improvement.

Internal control

The PGPA Rule requires that the audit committee review the appropriateness of the accountable authority's system of internal control for the entity. This would entail an audit committee gaining a sufficient understanding of the entity's operating context, governance requirements, and reviewing the mandatory requirements of the PGPA Act, the PGPA Rule and also consider advice in supporting guidance.

Accountable authorities might wish to consider the following examples of requirements in their audit committee charter. Each accountable authority will need to consider the purposes and unique operating context of the entity to determine the appropriate focus for the audit committee in relation to the entity's financial and non-financial internal controls.

- The audit committee review and provide advice on the appropriateness of the accountable authority's:
  - 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—such as accountable authority instructions, delegations, 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 (including complying with *the Protective Security Policy Framework*).
  - 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 accountable authority or the nominated delegate,
    - reviewing all internal audit reports, providing advice to the accountable authority on major concerns identified in those reports, and recommending action on significant matters raised—including identification and dissemination of information on good practice.
- The audit committee provide a statement to the accountable authority whether the accountable authority's system of internal control is appropriate for the entity, with reference to any specific areas of concern or suggestions for improvement.

Additional functions of the audit committee

An accountable authority might look to its entity's audit committee to perform tasks additional to those prescribed by the rules. Any additional functions should be documented in the audit committee charter.

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

- Business continuity:
  - the audit committee should satisfy 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:
  - the audit committee should assess whether the accountable authority 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.
- Portfolio responsibilities—for audit committees of portfolio departments:
  - the audit committee should satisfy itself that appropriate mechanisms exist for the portfolio Secretary to be informed of all significant issues within the portfolio.
- Parliamentary committee reports, external reviews and evaluations:
  - the audit committee should satisfy 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.
- Compliance with the entity's specific legislative requirements

Conduct of the audit committee

In addition to detailing the functions of the audit committee, an entity's audit committee charter is a good place to document how the committee is to conduct itself.

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

Engaging with stakeholders

- Requirements relating to audit committee members' engagement with management of the internal audit function, other officials of the entity and the ANAO, in discharging their advisory responsibilities and formulating their advice to the accountable authority.
- Requirements relating to audit committee members' engagement with any subcommittees 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.

Administrative arrangements

- Annual work plan.
  - Any requirements relating to the development of an annual work plan, detailing actions to be taken in order to perform the committee's functions and the provision and advice to the accountable authority.
- A program of induction.
  - Any requirements for the committee to develop and maintain a program of induction, to help new committee members meet their commitments.
- Sub-committees.
  - 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.
- Secretariat.
  - Any secretariat support the accountable authority will make available to the audit committee and that secretariat's roles and functions—for example, documentation, record keeping and the preparation of minutes.
- Access to and use of information.
  - Providing access to information relating to the functions specified in the charter. Specifying any confidential and privacy requirements relating to information obtained by the committee in meeting its responsibilities.

Relationships

- It may be beneficial to clearly state the relationship and lines of communication between the audit committee and functions of the entity, such as: internal audit, the audit committee secretariat, and key management personnel.

Conflicts of interest

- Requirements for ensuring the independence of audit committee members.
- Processes for allowing audit committee members to declare potential conflicts of interest and appropriate responses to declarations in particular circumstances.

Reviewing and assessing committee performance

- Processes for ongoing review and assessment of the audit committee and its members' performance against the charter.